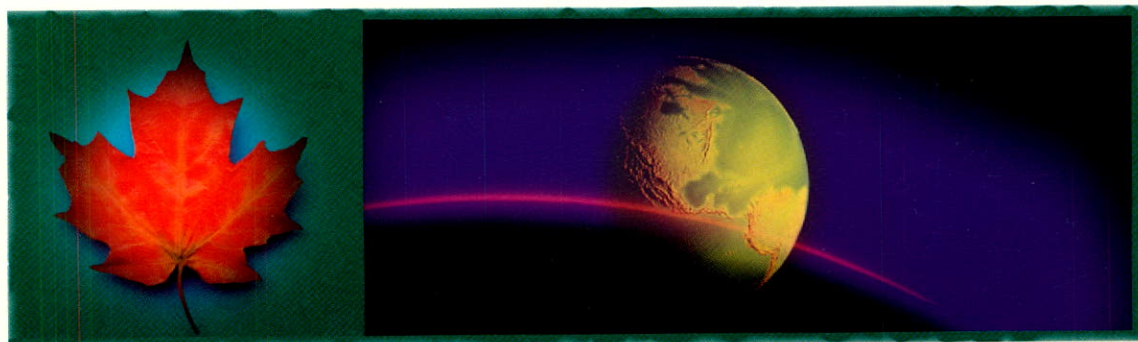


EXPORT DEVELOPMENT CORPORATION

1997 ANNUAL REPORT

TAKING CANADA TO THE WORLD



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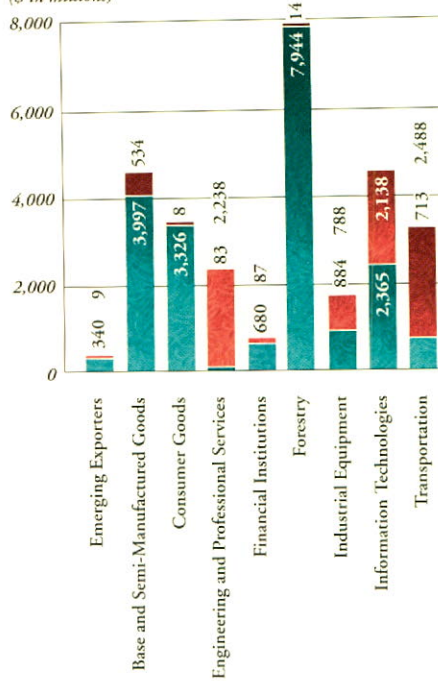


Minimize risk.
Export with
confidence.

1997 CORPORATE ACCOUNT HIGHLIGHTS

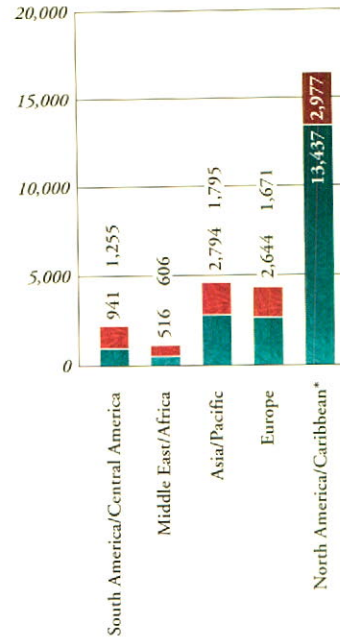
Business Volume by Industry Sector

(\$ in millions)



Business Volume by Geographic Market

(\$ in millions)



* includes Mexico

■ Medium- and Long-Term Financial Services
■ Short-Term Financial Services

Business Volume by Canadian Region

(\$ in millions)

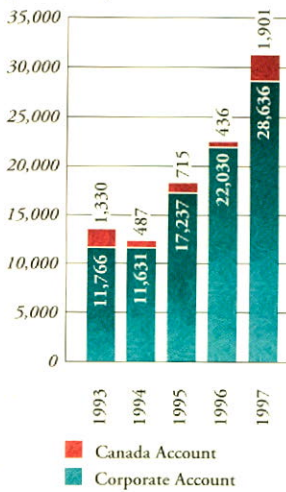


* includes other unallocated amounts

FIVE YEAR REVIEW

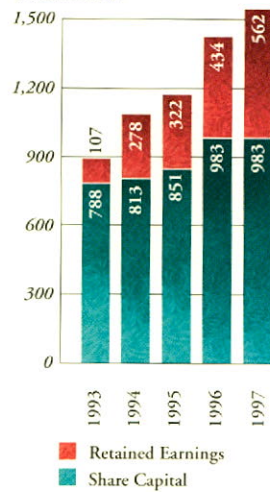
Business Volume

(\$ in millions)



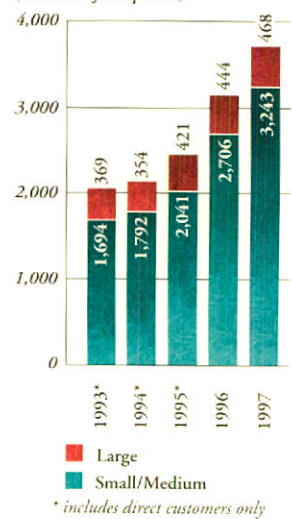
Shareholder's Equity

(\$ in millions)



Customers Served

(Number of companies)



* includes direct customers only

1997 PERFORMANCE AGAINST OBJECTIVES†

Each year, management sets objectives reflecting EDC's corporate goals. Simply stated — serving more customers, supporting more business and taking on more risk on behalf of our customers, all in a financially sound manner — form the cornerstone of EDC's corporate strategy.

OBJECTIVE #1: INCREASE THE NUMBER OF CUSTOMERS SERVED BY 14 PER CENT.

The number of companies benefiting directly or indirectly from EDC services increased by 18 per cent in 1997, from 3,150 to 3,711. Of these, 87 per cent or 3,243 were small- and medium-sized companies, a priority customer segment for EDC.

1998 objective: increase the number of customers served by 16.5 per cent.

OBJECTIVE #2: INCREASE THE VOLUME OF BUSINESS SUPPORTED BY 25 PER CENT.

The volume of business supported by EDC in 1997 increased by 30 per cent, from \$22.0 billion to \$28.6 billion. Although EDC's objective is to support customers wherever their international business takes them, we believe that our risk management solutions are most valued when companies venture into higher-risk markets. We set a target of \$6.5 billion of business volume in higher-risk markets for 1997, a 26 per cent increase over 1996 results, but only equaled our 1996 results of \$5.1 billion.

1998 objective: increase the volume of business supported by 14 per cent.

OBJECTIVE #3: MAINTAIN CUSTOMER SATISFACTION AT 1996 LEVEL.

In our annual customer survey, our customers rated their satisfaction with EDC in 1997 essentially, in statistical terms, as they had in 1996, with a score of 79.5 out of 100 in 1997 versus 80.6 in 1996.

1998 objective: maintain customer satisfaction at present level.

OBJECTIVE #4: INCREASE PRODUCTIVITY BY NINE PER CENT.

Productivity, measured by the volume of business supported per dollar spent on administration, increased by 14 per cent in 1997. This measure is being replaced in 1998 by a ratio of administrative expenses to net operating income to better reflect market practice.

1998 objective: achieve a ratio of less than 16 per cent.

OBJECTIVE #5: GENERATE A POSITIVE NET INCOME TO ENSURE SUFFICIENT CAPITAL FOR FUTURE GROWTH.

A net income of \$128 million was achieved in 1997, which will help secure a solid financial foundation to ensure long-term competitive support to our customers.

1998 objective: generate a net income between \$100 million and \$200 million.

† Initial 1998 targets were set in the fall of 1997 in the context of developing EDC's Corporate Plan. New operational targets for 1998 were subsequently set by management for some of the measures, based on 1997 year-end results.





EXECUTIVE MANAGEMENT TEAM

(From left to right)

*A. Ian Gillespie President and Chief Executive Officer
 Katherine Payne Vice-President, Human Resources
 Rolfe Cooke Senior Vice-President, Short-Term Financial Services
 Gilles Ross Senior Vice-President, Legal Services and Secretary
 Eric Siegel Executive Vice-President, Medium- and Long-Term Financial Services*

CANADA'S SECRET TRADE WEAPON

In today's fiercely competitive global trade arena, winning companies are those that have well-grounded offensive and defensive export strategies. Export Development Corporation's (EDC's) flexible and innovative risk management services can be an important part of these strategies for Canadian exporters and investors.

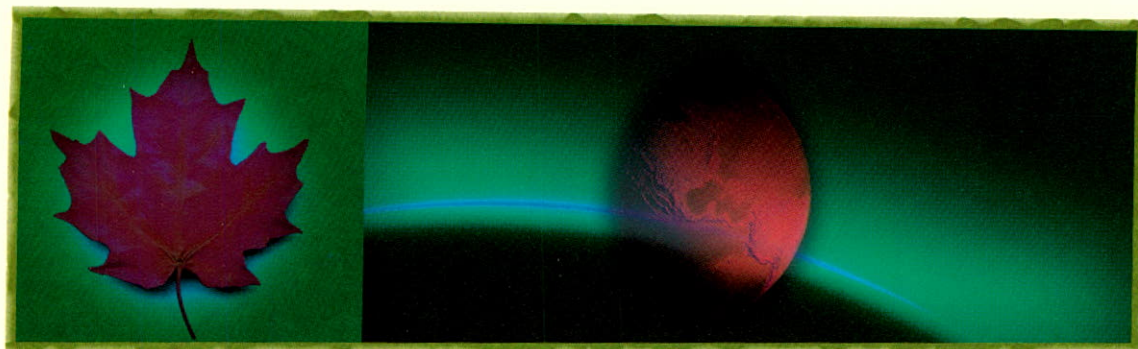
EDC's full range of risk management services — export receivables insurance, bonding and guarantee protection — provides a shield against many of the risks exporters and investors can encounter in foreign markets — markets as close as the United States.

And EDC's financing products — lines of credit and protocols, note purchase arrangements, direct buyer loans, long-term preshipment financing, leveraged lease finance and project risk financing — provide a wealth of strategic weapons that help exporters and investors conquer new markets.

These products are delivered to customers through eight business teams, which provide the front-line offence and defence Canadian companies need to succeed abroad. In addition, EDC's Emerging Exporters Team and SME Financial Services Team help small- and medium-sized Canadian companies extend their reach into global markets.

To further strengthen EDC's customer support, specialized teams provide expertise in areas such as credit surveillance and analysis, economics, equity, foreign investment insurance, international markets and project finance.

Since 1944, EDC has been helping customers minimize risk and export with confidence. Now, more than ever, Canadian companies need a leading-edge financial services corporation that can help them target export markets quickly and easily. EDC is that kind of company.



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1997 Performance against Objectives	iii

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ENSURING GLOBAL SUCCESS FOR SMALL- AND MEDIUM-SIZED ENTERPRISES

EDC divides small- and medium-sized enterprises (SMEs) into two categories: small businesses with up to \$5 million in annual sales, and medium-sized businesses with sales of between \$5 million and \$25 million annually.

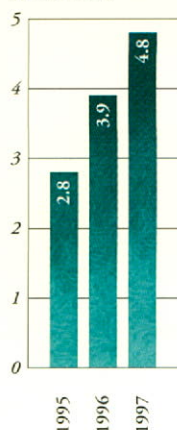
- In 1997, 3,243 SMEs concluded \$4.8 billion in export business in 133 countries with EDC's support.
- As evidence that exports really do result in growth, 136 companies switched their business from the Emerging Exporters Team to EDC's business (industry sector-based) teams because their annual export sales grew to more than \$1 million in 1997.
- The new SME Financial Services Team, dedicated to finding streamlined export credit solutions for SMEs selling on longer credit terms, worked with other EDC teams to pave the way for 76 transactions — 55 per cent more than in 1996 — valued at \$285 million. Many of these deals were in higher-risk international markets.
- NORTHSTAR Trade Finance Inc., a key partner of EDC in the export financing field for SMEs, financed more than \$43 million in business in 1997, a 96 per cent increase over 1996. Every NORTHSTAR deal was insured by EDC.
- EDC was a major sponsor of the Asia Pacific Economic Cooperation (APEC) SME event in 1997, which brought together small-business ministers, business representatives, young entrepreneurs and export credit agencies of 18 countries. Participating governments committed to reducing the paper burden faced by SMEs in doing business in and among these economies.
- EDC continues to develop flexible ways of encouraging banks to support more export business by smaller Canadian companies. In 1997, 119 smaller exporters received a total of \$17.4 million in working capital from banks under EDC's Master Accounts Receivable Guarantee (MARG) program. A further 12 deals, valued at \$5.1 million, were supported under a range of EDC's guarantee programs, such as CIBC's Grow Export program and the auto parts facility with the TD Bank.
- The United States remained the highest-risk export market (in percentage terms) for EDC's SME customers in 1997. While not quite half of EDC-backed SME business was to the United States, fully 85 per cent of insurance claims under EDC's small-business program originated from that market.

"Exporting is our future. EDC has always helped us find the right financing formula to close deals."

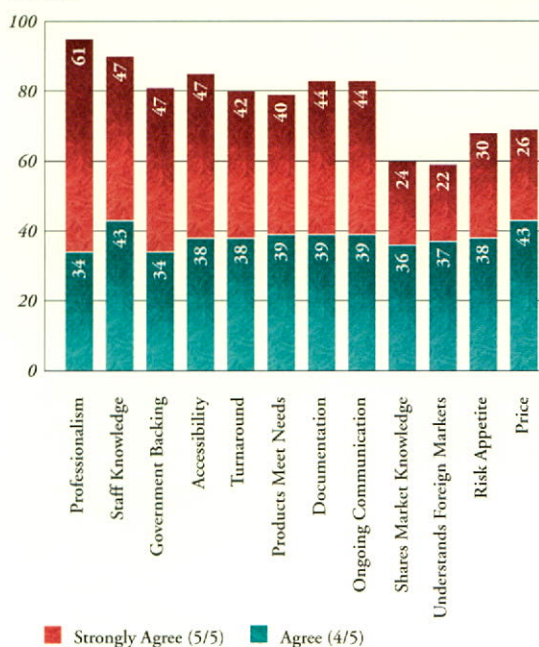
Albert Bohemier,
President and
Chief Executive Officer,
Survival Systems Limited,
Dartmouth, NS



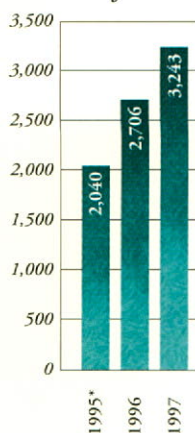
Volume Support for SMEs
(*\$ in billions*)



SME Service Attribute Ratings
(*Per cent*)

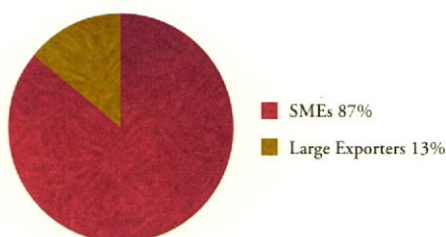


Number of SME Customers

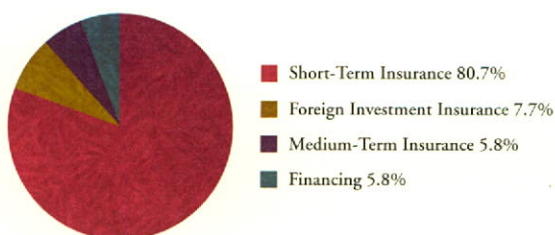


* includes direct customers only

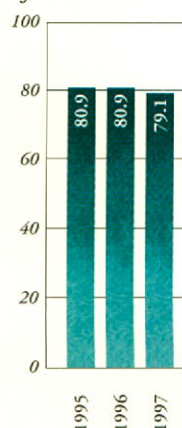
SMEs as a Percentage of EDC's Customer Base



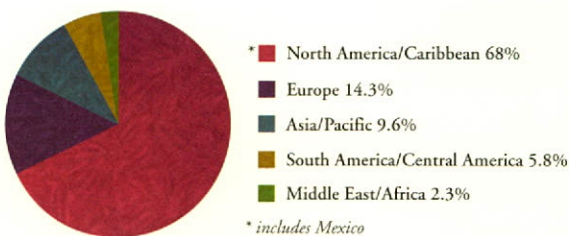
SME Product Usage



Customer Satisfaction Index for SME Customers



SME Volume by Geographic Market



* includes Mexico



Patrick J. Lavelle

Chairman of the Board of Directors

A. Ian Gillespie

President and Chief Executive Officer

CHAIRMAN AND PRESIDENT'S MESSAGE

Taking Canada to the World • By all measures, 1997 was another highly successful year. EDC helped an ever-increasing number of Canadian businesses grow and prosper through international trade while maintaining its financial capacity to support future risk taking for the benefit of Canada.

We exceeded four out of our five performance targets and recorded a very strong score on our aggressive customer satisfaction benchmark. We worked with 3,711 customers, an increase of 18 per cent over the previous year, to help them generate more than \$28 billion in sales and foreign investments. This represented volume growth of over 30 per cent from 1996. As a point of comparison, Canadian exports grew by close to seven per cent overall in 1997. We reported a net income of \$128 million after additional prudential reserves of \$295 million and increased our productivity ratio by 14 per cent. We achieved an overall customer satisfaction score of 79.5/100 against a target of 80/100, which was most gratifying given the substantial growth in customers and business volume supported.

We worked with 3,711 customers, an increase of 18 per cent over the previous year, to help them generate more than \$28 billion in sales and foreign investments.

EDC's support of our customers in more than 145 global markets is one measure of our public policy mandate and our desire to showcase Canada to the world. We also set a target for 1997 of increasing the amount of volume to be concluded in higher-risk markets by 26 per cent. We did not achieve this goal, principally due to the non-renewal of some foreign investment insurance policies as well as changes to Brazilian import regulations which affected short-term insurance declared volumes.

Our role continues to grow in importance as exports become a more significant factor in the success of the Canadian economy. Since 1993, Canadian exports have increased by more than 55 per cent. EDC's business not only has kept pace with this boom, but has surpassed it; our growth over the same time period was 143 per cent. EDC is a unique financial institution offering Canadian exporters and foreign investors trade finance products, such as credit insurance, bonding, guarantees and financing, all under one roof. The Corporation has become one of the most successful export credit agencies in the world, providing Canadian companies with a competitive edge in global markets.

Although EDC operates as a commercial financial institution, our public policy role puts the emphasis on being an export maximizer, not a profit maximizer. The substantial increases in business activity over the last several years and our growing support for small- and medium-sized enterprises (SMEs) are indicators of our success in this regard. The achievement of a healthy bottom line, however, is also critical to EDC's goal of internally generating the capital necessary for additional risk taking and growth in customer support.

Given the higher-risk nature of EDC's activities in a volatile global economy, a traditional return on equity measure is not the best indicator of financial performance. Instead, we believe, it is the ongoing leverage on the original capital which better demonstrates the wealth creation and value proposition for Canada.

Since its founding, the paid-in capital of the Corporation, now totalling \$983 million, has cumulatively supported in excess of \$170 billion in sales and investment for Canadian companies. Equally important, this equity has grown through the generation of retained earnings now totalling \$562 million, helping EDC increase support for new international trade every day.

Supporting smaller exporters • Over the past year, we continued to solidify our position as an important supplier of financial services to small business. Small business is big business for EDC. More than 85 per cent of our customers are SMEs. Through an aggressive outreach program of direct mail, use of intermediaries and other marketing efforts, we increased our SME customer base by 20 per cent. We also grew the number of transactions under \$5 million concluded for our SME customers by 17 per cent. The success of our 1-800-850-9626 call centre in delivering export receivables insurance on the spot continued to be a driving force in helping us record high customer satisfaction scores from our smaller customers in 1997.

We are continually looking at ways to assist SMEs in venturing beyond Canada's borders with confidence and to leave the major financial risks to us. Or, as it has been aptly put: "Exports are not good for Canada; getting paid is good for Canada." And that's the role of EDC. We are building on the success of our outreach efforts, with particular emphasis on making smaller capital goods exporters aware of the fast and simple medium-term financing solutions we offer. In 1997, we completely revamped the way we approve loans for smaller exporters. We are now able to get letters of offer out the door in as little as 24 hours in some cases. We have set an ambitious, but realistic, target of growing our SME customer base by 17 per cent in 1998.

The investments we have made in technology over the past few years have contributed to our ability to provide rapid, seamless service to exporters of all sizes. For example, the average length of time it took to issue a credit approval decreased to two days in 1997, even as our short-term volumes grew by 29 per cent. More than 63 per cent of credit approvals were issued within 24 hours.

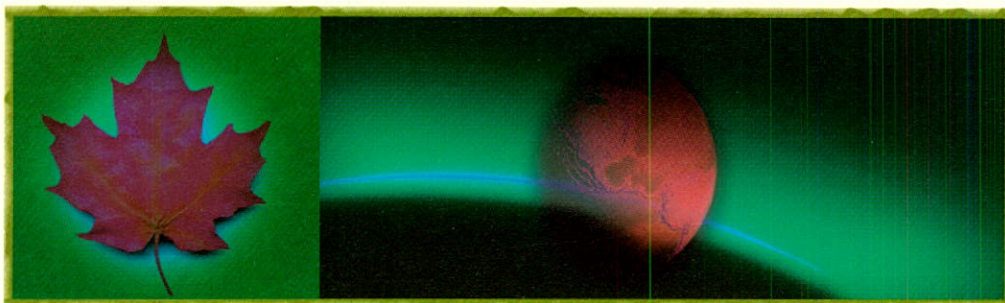
We continued to increase the amount of insurance support provided to NORTHSTAR Trade Finance Inc., which provides smaller loans to foreign buyers who are purchasing Canadian goods and services. NORTHSTAR, which counts the Bank of Montreal and the Royal Bank of Canada among its shareholders, represents another vehicle for SMEs to access medium-term financing for export opportunities.

In 1997, we completely revamped the way we approve loans for smaller exporters. We are now able to get letters of offer out the door in as little as 24 hours in some cases.

The Council of Crown Financial Institutions, which was formed in 1996 and consisted of the Business Development Bank of Canada (BDC), Farm Credit Corporation (FCC), Canadian Commercial Corporation (CCC) as well as EDC, undertook a review of opportunities for closer collaboration among these Crown corporations. Among other things, this review has led to the establishment of a seamless referral system for prospective customers, to better direct them to the appropriate Crown service provider; cross training of staff; interconnected internet sites; and other communications and marketing opportunities. The Council has now completed its work. It is expected that the Council will be replaced by meetings of the chief executive officers throughout the year. In this way, the network of contacts and communication among the Crown financial institutions will continue to expand. As well, the Crowns will report to the public annually on their business results in support of SMEs.

International arena • EDC was a major sponsor of the Asia Pacific Economic Cooperation (APEC) meetings in 1997. As well as being celebrated as the leader of a successful year-long effort to sign an historic co-operation agreement between APEC export credit agencies and export financing institutions, the Corporation was successful in generating many new contacts with foreign buyers and borrowers in APEC's 18-member economies. This will accrue benefits for Canadian exporters for years to come. As well, EDC sponsored the APEC SME Business Forum, focusing on practical ways to help SMEs grow and prosper in the region.





Based on our belief in the long-term economic potential of Asia, we expanded our presence in the China market by appointing a full-time representative in Beijing who will build on existing relationships and help create new opportunities for Canadian exporters. We also invested in a series of extended market visits to Asian and Latin American markets, which has enhanced our market intelligence and the services we provide to Canadian exporters.

Outlook • Looking ahead to 1998, EDC's goal remains to support more customers, do more business and take on more risk for Canadian exporters, all in a financially sound manner. We anticipate growing our business volume in excess of 14 per cent in 1998, whereas we are forecasting that Canadian exports will increase by five per cent next year. Thereafter, we expect a growth in exports of about seven per cent annually until 2002.

Looking ahead to 1998, EDC's goal remains to support more customers, do more business and take on more risk for Canadian exporters, all in a financially sound manner.

The economic turmoil in Asia, which began in the latter half of 1997, underscores the important role EDC plays in helping Canadian companies manage international risk. While it cannot be said in the aftermath of the events in Asia that it is "business as usual", EDC is in a strong position to look at Asia as a market offering new opportunities, rather than a problem to be avoided. The challenge in this volatile environment is being able to understand and assess the relevant risks. Our investments in people and technologies in the last several years give us cause for optimism that we can prudently manage and give our support to Canadian companies under these difficult conditions.

We are already seeing the early signs of many new customers seeking EDC support for activities not previously insured or financed by EDC due to the financial market turmoil. While there could be some unwelcomed surprises on the risk front, the Corporation's financial position is strong. Adequate prudential reserves have been taken for Asian and other credit risks and will be further increased if conditions warrant.

It is under these circumstances that EDC's role is most valued and where its mandate makes it unique in Canada. Only EDC is prepared to take on risk in some 200 countries on behalf of Canadian companies selling a wide range of goods and services. Whenever possible, however, we are looking to find opportunities to work with Canadian financial institutions to provide maximum support and expertise to assist Canadian companies.

A legislative review of EDC's mandate is scheduled to begin in 1998 and to be completed by June 1999. We welcome the opportunity to tell a wide audience of parliamentarians, exporters and other interested parties about our achievements on behalf of our customers since EDC's governing legislation was amended in 1993. We believe our story is a good one for Canadian companies going global, our shareholder and Canadian taxpayers.

The complexity of the international marketplace suggests that certain issues will continue to grow in importance in this rapidly changing world. Sustainable development, for example, is of increasing concern to individuals and corporations alike. EDC has long taken environmental concerns into account in its analysis of risk, since transactions that are not environmentally sound may, in addition to their damaging effects, not be viable and thus may be poor credit risks. Building on our existing practices, and in consultation with key stakeholders, we will introduce in 1998 an environmental framework that formalizes our procedures for building environmental risk assessment into project evaluation. We will also be formalizing a set of business principles to ensure that our employees, customers and foreign counterparties with whom we conduct business understand that EDC subscribes to the highest standard of service, ethics and integrity, consistent with the policies of the Government of Canada.

We are already seeing the early signs of many new customers seeking EDC support for activities not previously insured or financed by EDC due to the financial market turmoil.

People • This year marked the end of Paul Labbé's successful five year term as president and chief executive officer of EDC. Paul was instrumental in extending our legislative mandate in 1993, resulting in EDC being better able to meet customer needs in today's complex environment. His contributions are an important legacy for EDC's future.

At the end of 1997, Alexander (Sandy) K. Stuart retired as chairman of EDC's Board of Directors, after serving with distinction for more than three years in this capacity. Sandy has been EDC's longest-serving director, having held a directorship for some 15 years over the span of a quarter century. He brought passion, wisdom and special insight as a long-time exporter to the many challenges EDC has faced during this period. We thank him for his inexhaustible support. EDC is better meeting its mandate because of him.

We also wish to recognize the contributions of directors who retired from the Board: T. Lloyd Callahan, Brian O'N. Gallery and Jacques Laurent. During 1997, Marcel Dufour, Marcel Dutil and Robert J. Holt became new members of the Board.

Without the dedication and creativity of our employees, we would not have been able to achieve strong results in 1997. What distinguishes EDC from other financial institutions is the breadth and depth of its trade finance skills. Once again this year, in our annual Customer Satisfaction Survey, the professionalism of our employees received top marks. Internally, the views of our employees are sought in an annual Employee Satisfaction Survey, and it was most gratifying to read that 89 per cent of employees agreed with the statement in the survey, "I am proud to work for EDC."

Providing ongoing training to new and seasoned employees is a strong priority for EDC. As a knowledge-based business, access to a skilled workforce is critical to our success. Last year we invested more than \$2,000 per employee on training to help them grow professionally. We will continue to build, enhance and protect our knowledge base.

We wish to thank our employees for their extraordinary achievements in 1997. With their continued dedication and commitment, we are confident 1998 will bring further success on behalf of our customers and Canada.



Patrick J. Lavelle
Chairman of the Board of Directors



A. Ian Gillespie
President and Chief Executive Officer





SME SERVICES GROUP

FUELING THE GROWTH OF SMALLER EXPORTERS EDC's SME Services Group provides double-barreled support, through the Emerging Exporters Team, which helps smaller exporters manage risks associated with exporting, and through the SME Financial Services Team, which generates export credit solutions for SMEs that sell on longer credit terms.

Reflecting back • No company is too small to export. Thousands of small- and medium-sized enterprises (SMEs) proved this maxim to themselves, to the Canadian economy and to foreign buyers in 1997.

Through its specialized and streamlined services for SMEs, EDC proved more than ever over the past year that no exporter is too small for EDC. A total of 1,972 smaller exporters sold \$401 million in more than 120 markets with EDC's Emerging Exporters Team in their corner in 1997. Operating as a call centre, the team's underwriting specialists deliver export receivables insurance to smaller exporters on the spot, by phone and fax, during regular business hours anywhere in Canada.

During 1997, the SME Financial Services Team launched its first full year of operation as the special EDC unit that delivers streamlined buyer financing solutions to SMEs that sell on longer credit terms. The team supported more than \$24 million in exports by 16 companies in 1997.

Working capital shortages and the need for pre-export financing continue to challenge SMEs. In 1997, the Master Accounts Receivable Guarantee (MARG) program helped 119 smaller exporters acquire \$17.4 million in incremental bank financing. And the risk-sharing guarantee arrangement developed jointly by EDC and the CIBC gathered steam over the past year, supporting \$2.2 million in pre-shipment financing for 12 companies.

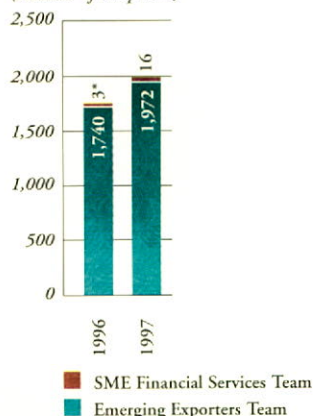
Looking forward • The true strength of SMEs is their ability to respond quickly to opportunities as they arise — even when those opportunities require refinement and customization. EDC's services for SMEs need to be equally responsive. The SME Services Group will therefore continue to develop financial partnerships with banks and corporations such as NORTHSTAR Trade Finance Inc. to give smaller exporters the edge they need to compete globally.

"Before 1997, almost all our business was in Canada.

We now sell in 80 countries, thanks to EDC's support, and in some months, 98 per cent of our sales are exports. This has significantly improved cash flow and our ability to compete."

Dave Robinson, President,
Amber Computer Systems Inc.,
Surrey, BC

Customers Served
(Number of companies)



Business Volume by Geographic Market





BASE AND SEMI-MANUFACTURED GOODS TEAM

REFINING EXPORT SALES EDC's Base and Semi-Manufactured Goods Team supports non-forestry and non-agri-food natural resources and processed goods of a base nature, such as ores and minerals, oil and gas extraction and refining, coal and petroleum products, chemicals, fertilizers, plastics, rubber and building materials and textiles. The team's 1997 business volume rose 10 per cent to \$4.5 billion.

Reflecting back • Flexibility is the term that best describes the critical support EDC's Base and Semi-Manufactured Goods Team provided to a wide range of customers in 1997. By having specialists focus on specific subsectors, and by forming closer ties with key industry associations, the team continued to gain insight into its customers' needs and risk levels in 1997. This allowed the team to be more aggressive in assuming risk, to price its insurance products more competitively and to provide more flexible solutions to its customers. The team's growth in business volume reflects these facts.

In 1997, a number of the team's key subsectors experienced consolidation at the buyer level, which resulted in exporters holding higher concentrations of exposure with many of their key customers. Through its well-developed network of contacts and information sources, the team was able to stay on top of these developments and respond with additional coverage to its clients.

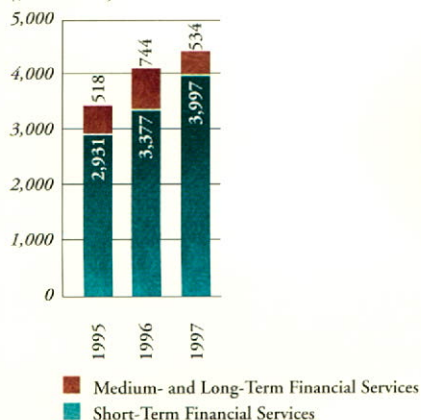
The trend in buyer consolidations has made, and is expected to continue to make, EDC's short-term insurance protection an even more valuable product for exporters of base and semi-manufactured goods. Over the past year, short-term insurance accounted for 88 per cent of the team's business volume. A total of 60 per cent of the team's customers were small- and medium-sized enterprises.

Looking forward • Canadian exports of base and semi-manufactured products are estimated to increase by 4.8 per cent in 1998. A slowdown in the growth of imports of base and semi-manufactured goods in the United States, and continued turmoil and difficulties in Asian markets, are expected. This will pose challenges both for EDC and its customers. However, the Base and Semi-Manufactured Goods Team will be open to different types of risk sharing in order to structure financial packages that are flexible and best suited to meeting customers' needs — particularly when export markets are less than stable.

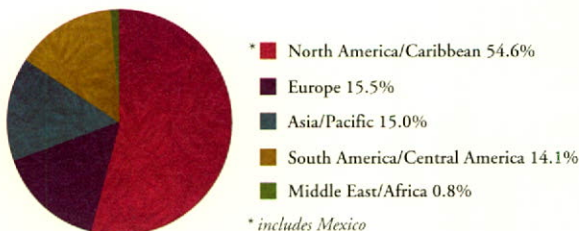
"In supporting the financing of our foreign contracts, EDC acts as a true business partner, helping us develop our markets throughout the world."

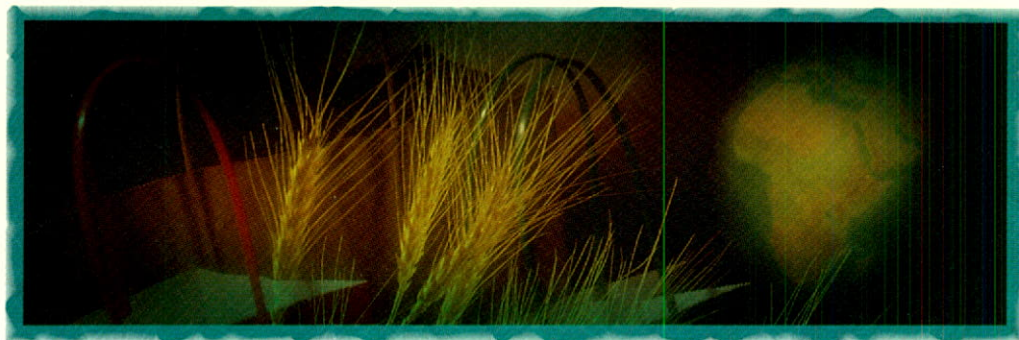
Danièle Boismenu, C.A.,
Director of Finance,
Expro Chemical Products Inc.,
Valleyfield, QC

Business Volume
(\$ in millions)



Business Volume by Geographic Market





CONSUMER GOODS TEAM

SELLING CANADIAN QUALITY TO THE WORLD EDC's Consumer Goods Team supports exporters that sell items ranging from clothing, furniture and household electrical products, to meat, fish and wheat (broadly defined as "household" goods). Business volume for this team increased by 29 per cent in 1997, hitting the \$3.3 billion mark.

Reflecting back • Diversity has long characterized Canada's consumer goods sector. As a reflection of that, EDC's Consumer Goods Team provides risk-mitigating solutions to a wide array of Canadian exporters that sell to an equally wide range of countries. The past year proved no different as the team supported goods that included meat exported to Macedonia, ice wine sold to China and printed novels shipped to Thailand.

Although the scope of exports supported by the Consumer Goods Team broadened in 1997, apparel and agri-food remained the key export sectors it supports. The U.S. market absorbed approximately three-quarters of Canada's total consumer goods exports over the past year. In addition to apparel and agri-food exports, the U.S. market also accounted for the majority of home furnishings and toy exports supported by EDC. The United States continues to pose relatively high risk and represented 42 per cent of consumer goods claims EDC paid in 1997.

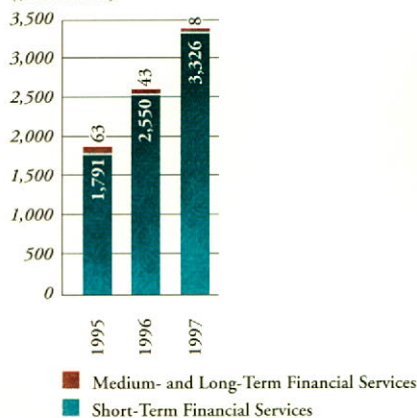
Well aware of the challenges facing Canadian exporters, the team was enlarged in 1997, enabling each team member to specialize in a particular sector. This fostered greater sectoral knowledge among team members and allowed them to focus on generating innovative risk management solutions for their customers. Nearly all EDC support for consumer goods was provided in the form of short-term insurance in 1997. Small- and medium-sized enterprises represented 76 per cent of the Consumer Goods Team's customers.

Looking forward • Consumer goods exporters can anticipate a new set of challenges in 1998. A projected cooling of the U.S. economy is expected to moderate the export growth of consumer goods relative to previous years. Moreover, exports of consumer goods to Western Europe and Japan are also expected to undergo a slow recovery. Nevertheless, the export of Canadian consumer goods is expected to grow by a healthy 8.6 per cent in 1998. Throughout 1998 and beyond, EDC's Consumer Goods Team will become increasingly innovative with its coverage as it develops a greater knowledge of the sectors it supports, by participating in industry trade shows and liaising with trade associations.

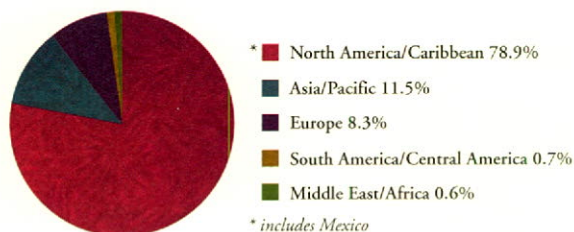
"EDC's flexibility and speed in supporting us, as well as its understanding of our exporting needs, makes it an essential business partner for us in an increasingly competitive global market."

Louis Garneau, President,
Louis Garneau Sports Inc.,
Saint-Augustin-de-Desmaures,
QC

Business Volume
(\$ in millions)



Business Volume by Geographic Market





ENGINEERING AND PROFESSIONAL SERVICES TEAM

PROVIDING A BLUEPRINT FOR EXPORT SUCCESS Among the services and projects supported by EDC's Engineering and Professional Services Team are construction, engineering, oil and gas, power, pulp and paper, scientific, technical and architectural. In 1997, the team's business volume expanded by 51 per cent, to reach \$2.3 billion.

Reflecting back • Tailoring the right product and service package to meet each customer's requirements is a hallmark of EDC's Engineering and Professional Services Team. To maintain this approach in 1997, the team increased its partnering with other financial institutions to share risks and leverage support. This was especially true in the case of projects for which the team provides limited recourse financing and foreign investment insurance. In addition, several reinsurance facilities are now in place with surety companies, allowing EDC to add capacity in support of exporters' bonding needs.

In 1997, the team placed a priority on providing support where it was most needed. Fully 93 per cent of the services exports the team supported were destined for developing countries. The team's customers continued to be major users of both insurance and financing products over the past year. The number of small- and medium-sized enterprises (SMEs) the team supported in 1997 grew from 70 per cent of its total customer base in 1996 to about 75 per cent.

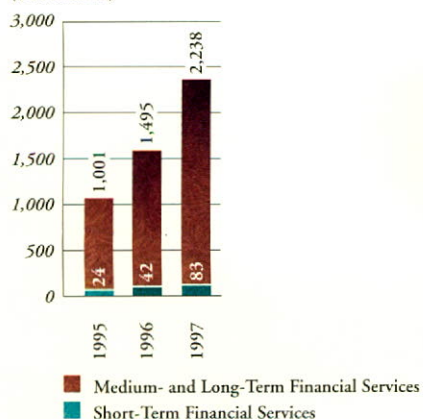
Looking forward • Canadian exports of services are forecast to rise by 6.3 per cent in 1998. To support this growth, EDC's Engineering and Professional Services Team will maintain its dual focus. The team will support Canadian companies investing and/or acting as engineering procurement contractors for projects, and will also support SME services companies in growing export areas such as environmental services and management consulting.

The Engineering and Professional Services Team expects to provide increased support for projects through structured and limited recourse financing, bonding and political risk insurance programs. This comes as a result of the continuing global trend toward privatization and EDC's recognized expertise in these areas of export credit. The team also expects to be involved in more coinsurance and reinsurance arrangements with private-sector institutions, with emphasis on flexibility, quick turnaround and competitive terms in its support. As well, the team will continue to provide support where its customers need it most — to developing countries.

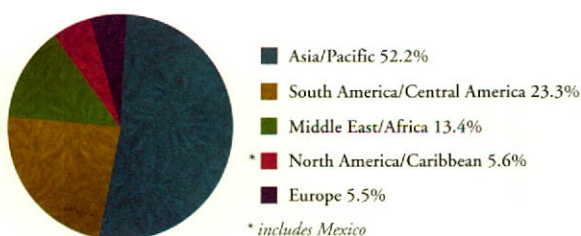
"Teaming up with EDC has assisted Attila Dogan Design & Construction Ltd. in successfully outbidding other international competitors, with the added benefit of providing the opportunity for some of ADDC's Canadian subsuppliers to export for the first time."

Dale Richards,
Director, ADDC,
Calgary, AB

Business Volume
(\$ in millions)



Business Volume by Geographic Market





FINANCIAL INSTITUTIONS TEAM

BUILDING A PILLAR OF FINANCIAL STRENGTH In partnership with Canadian financial institutions, EDC's Financial Institutions Team supports Canadian export sales, across all industries, that call for payments from banks in foreign markets. In 1997, the team helped Canadian banks and exporters manage risks associated with sales into 35 countries.

Reflecting back • While the team's business volume was primarily made up of short-term, Letter of Credit business in 1997, the past year saw the team supporting medium-term documentary credits as well. It was a year marked by upheaval in Asian banking circles. Together with Canadian financial institutions, the team worked to ensure risk management solutions remained available for Canadian companies. The number of indirect customers (Canadian exporters) supported by EDC's Financial Institutions Team rose to nearly 100 in 1997, up 13 per cent.

Over the past year, the Financial Institutions Team helped EDC take on more business in higher-risk markets by handling bank analysis for medium- and long-term financing and insurance transactions, in addition to short-term transactions. Having EDC's bank analysis function centralized with the Financial Institutions Team allowed the Corporation to assess a foreign bank's credit-worthiness faster and with greater expertise. In turn, EDC was better equipped to take on new, sound business in higher-risk markets.

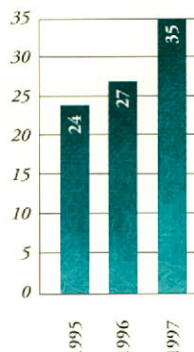
Looking forward • As Canadian banks face greater competition from their foreign counterparts, they are turning to EDC to provide increasingly innovative insurance coverage. Responding to a need to support more cost-effective transaction structures, the Financial Institutions Team expects to see business shift away from plain vanilla Letter of Credit terms. In certain markets, bank guaranteed promissory notes, standby Letters of Credit and straight bank-to-bank loans represent attractive alternatives to costly documentary credits. The team is well positioned to respond with solutions to meet the changing needs of Canadian banks.

Other areas of greater co-operation include increasingly flexible risk sharing on transactions. Whereas EDC usually provided 90 per cent coverage, financial players will be looking to the team to provide variable levels of protection to complement their own risk appetites. By increasing its creativity and flexibility in its role as a critical partner in higher-risk markets, EDC's Financial Institutions Team will provide financial institutions with the additional reach and capacity they need to support Canadian exporters.

"EDC is responsive to our needs for new and more flexible risk mitigation products, helping us finance more Canadian exports to more foreign markets. This partnership benefits our exporting clients and helps us achieve our goal of becoming Canada's Export Finance Bank."

Neil Rennie,
General Manager,
Trade Finance Division, CIBC,
Toronto, ON

Countries Insured



Business Volume by Geographic Market





FORESTRY TEAM

HELPING EXPORTERS BRANCH OUT Lumber, pulp, paper and value-added forest products are key subsectors supported by EDC's Forestry Team. In 1997, the team's business volume soared by 45 per cent, to reach \$7.9 billion.

Reflecting back • Canada's forestry sector experienced a year of transition in 1997, which was marked by acquisitions, mergers and corporate and financial restructuring among several of the major players. Canadian lumber heading south of the border did not diminish in the past year despite the Canada-U.S. Softwood Lumber Agreement, as demand remained strong during most of the year. The main contributor to the increase in forestry exports in 1997 was, indeed, the growth in lumber exports to the United States. EDC's support also flourished for this vital export sector in 1997 — increasing by 88 per cent over 1996.

The credit risks facing exporters of lumber to the United States were primarily in the retail home improvement sector. The risk level in this sector rose dramatically over the past year and was marked by several companies undergoing significant restructuring to cope with intense competition. This sector drew business to EDC and was also the sector in which EDC paid several forestry claims resulting from bankruptcies.

EDC also provided more protection to forestry companies exporting to Asian countries as the economic and financial difficulties in that region mounted as the year came to a close. Support for forestry exporters was almost entirely provided under EDC's short-term insurance program. Small- and medium-sized enterprises represented close to 60 per cent of the Forestry Team's clients.

Looking forward • Annual growth of five per cent is predicted for Canadian forest products from 1998 to 2001. The economic and financial crisis, however, will decrease export opportunities in Asia for Canadian forest products, notably in Japan. China, however, remains a strong economic market. The Asian financial crisis should result in more exporters insuring their Asian receivables with EDC, including Letter of Credit transactions that were traditionally uninsured.

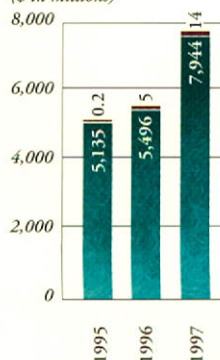
More mergers and acquisitions are expected among large North American forestry companies in 1998 and, to a larger extent, in the Western European forestry industry. EDC will meet its forestry customers' evolving needs in 1998 and beyond and will continue to exercise flexibility to meet their insurance needs.

"For many years, we have used EDC's services. Presently, with the Asian markets in such turmoil, we are even more aware of the value of EDC support for both our buyers and their banks."

John Titos,
Export Credit Manager,
International Forest
Products Limited,
New Westminster, BC

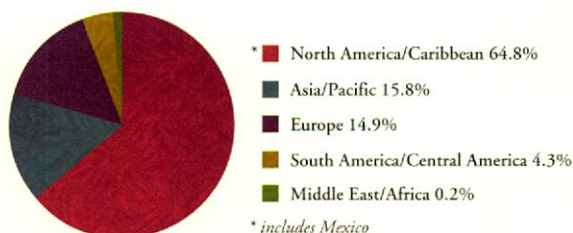
Business Volume

(\$ in millions)



■ Medium- and Long-Term Financial Services
■ Short-Term Financial Services

Business Volume by Geographic Market



* includes Mexico



INDUSTRIAL EQUIPMENT TEAM

EQUIPPING EXPORTERS TO TAKE ON THE WORLD Power generation equipment, oil and gas equipment, plastics molding, construction, agricultural and environmental equipment are among the goods supported by EDC's Industrial Equipment Team. Business volume increased by 47 per cent in 1997, reaching \$1.7 billion. Power equipment and oil and gas equipment showed particularly strong performance.

Reflecting back • Innovation laid the foundation for success for EDC's Industrial Equipment Team and its customers in 1997. The team launched a cutting-edge automotive tool, die and mold facility that bridges a financing gap for tooling manufacturers. The facility serves Canadian automotive parts manufacturers and a large number of tool, die and mold producers, most of which are small- and medium-sized enterprises (SMEs). Indeed, more than 77 per cent of the team's customers are SMEs. At the end of 1997, more than 25 agreements had already been finalized with tool, die and mold makers, to finance \$60 million worth of tooling exports. This program is expected to support double the number of toolers in 1998 compared with 1997.

Revolutionizing EDC's business with India, the Industrial Equipment Team finalized the Corporation's first private-sector transaction in that dynamic economy over the past year. The transaction has enabled several Canadian companies to win business there and paves the way for Canada to conclude more private-sector business with India. Short-term insurance accounted for 53 per cent of the team's support in 1997, followed by financing at 38 per cent.

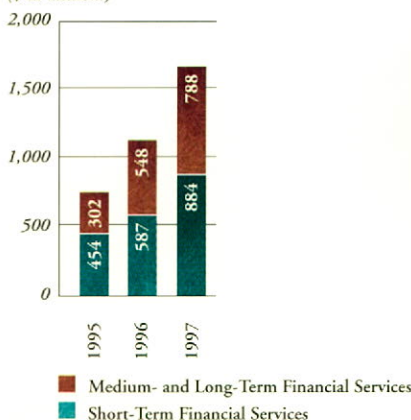
Looking forward • Canadian exports of industrial equipment are forecast to rise by more than six per cent in 1998, with the United States accounting for much of the growth. EDC's Industrial Equipment Team is poised to provide the additional support exporters will need. For instance, customers of Canadian industrial equipment exporters are becoming more reluctant to issue Letters of Credit as a method of payment for equipment purchases. This is making EDC's Global Comprehensive Insurance program increasingly appealing to Canadian manufacturers that are negotiating more contracts on an open account basis.

As well, EDC's growing reputation as a leading project risk lender has the Industrial Equipment Team participating in more and more limited recourse transactions for such projects as oil refineries, petrochemical plants and private power facilities. And EDC's reinsurance agreements with other export credit agencies will allow it to continue to support Canadian exporters that may have operating facilities in other countries.

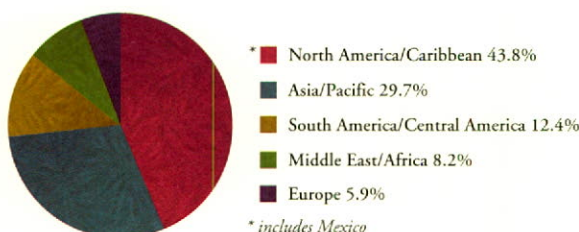
"EDC, in partnership with our bank, provided an innovative credit facility which has benefited TRIAM and its Canadian tool, die and mold suppliers. In the automotive parts industry, where customer service and product quality are a necessity, it is refreshing to see EDC driven by that same necessity."

James Nicol,
Chairman and
Chief Executive Officer,
TRIAM Automotive Inc.,
Concord, ON

Business Volume
(\$ in millions)



Business Volume by Geographic Market





INFORMATION TECHNOLOGIES TEAM

LINKING CANADA TO GLOBAL MARKETS EDC's Information Technologies Team supports several sectors, including telecommunications equipment, electronic parts, computers, instrumentation, and software and services. In 1997, the team's business volume skyrocketed to \$4.5 billion, a 43 per cent increase.

Reflecting back • Strong growth continued to characterize the information technology (IT) sector both in Canada and around the world in 1997. EDC's Information Technologies Team expanded its support by 43 per cent over the past year to keep pace with the growth and success of its customers. The IT sector is highly dependent on global growth opportunities, and Canadian firms successfully penetrated new markets and grew market share in existing markets in 1997. Telecommunications was the driving force in the IT sector. Canadian companies won significant contracts in wireless and fixed-line telephony, data transmission and internet-enhancing technology and software that are sweeping the world. As well, a number of Canadian computer subsystem equipment companies posted significant international sales.

Export receivables insurance, contract bonding and foreign investment insurance support accounted for 60 per cent of the Information Technologies Team's support in 1997, and financing accounted for 40 per cent. A total of 79 per cent of the team's customer base were small- and medium-sized enterprises.

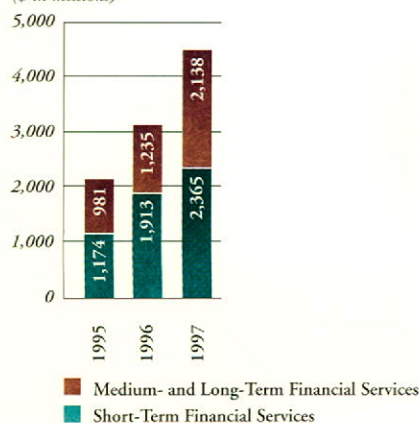
Looking forward • The global IT sector is expected to continue to grow by an average of 15 per cent annually for the next five years. Latin America, Eastern Europe and Russia, in particular, offer opportunities for Canadian IT exporters in 1998. The outlook is for tremendous growth in the global telecommunications sector well into the new millennium. Excellent opportunities exist for entrepreneurial Canadian IT firms to break into new markets.

Along with the trend toward private-sector initiated projects is a growing requirement for vendor financing support. EDC's Information Technologies Team is well equipped to assist exporters and their financial advisors in meeting these requirements through more co-operative financings throughout 1998. Although export growth in the computer and electronic components sectors is expected to slow in all product segments, promising opportunities remain for specialty niche players in the areas of data networking, graphic cards and sound processing. EDC plans to be a factor in their international success.

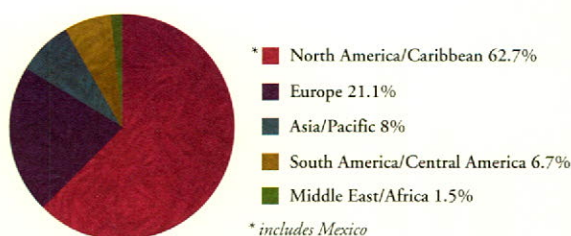
"EDC's insurance and financing support has been invaluable to Newbridge Networks and the Newbridge affiliates. EDC turns around complex transactions quickly, is a key strategic partner as we grow our export business in new markets and is an integral part of our prudent approach to risk management."

Douglas K. McCarthy,
Vice-President,
Finance and Treasurer,
Newbridge Networks
Corporation,
Ottawa, ON

Business Volume
(\$ in millions)



Business Volume by Geographic Market





TRANSPORTATION TEAM

PUTTING EXPORT SALES IN MOTION Manufacturers of aircraft and parts, motor vehicles and parts, shipbuilding and repair, railroad rolling stock (train and metro cars) and other transportation equipment reaped the benefits of support provided by EDC's Transportation Team in 1997. Business volume totalled \$3.2 billion.

Reflecting back • Building strong and lasting partnerships with customers is a key goal of the Transportation Team. Attesting to that, the team's Aerospace Unit supported an increasing number of small- and medium-sized exporters in 1997 through its innovative tooling finance program. The unit also participated in its first limited recourse project finance transaction over the past year.

There was significant growth in the volume of railway exports supported by the Transportation Team during 1997. This mirrored the success of Canadian companies meeting the challenges of this increasingly competitive sector. The Transportation Team also worked closely with the auto industry and related associations, both in the after-market and the original equipment market, in 1997. EDC's understanding of the industry grew, as did the industry's understanding of EDC.

Financing accounted for 60 per cent of the team's support in 1997, followed by short-term insurance at 22 per cent and medium-term insurance/foreign investment insurance at 18 per cent. Small- and medium-sized enterprises represented 61 per cent of the team's client base.

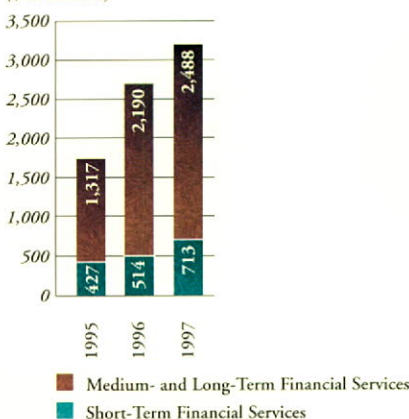
Looking forward • Exports of transportation goods (primarily autos, aircraft and their related parts) from Canada are projected to increase by 4.7 per cent in 1998, down from 1997 growth. Canadian sales of aircraft and parts to the United States are expected to rise by 10.7 per cent. The outlook for Canadian aerospace companies remains favourable in 1998, with exports projected to rise by 7.6 per cent. Again, this growth will be concentrated in the United States.

On the rail side, EDC's Transportation Team is seriously considering providing support for Canadian freight car manufacturers, which hold close to 20 per cent of the North American market for this sector. The team is eager to participate in this dynamic niche. Strategically, the team will be working more closely with the national transportation sector manufacturers' associations to develop financing support mechanisms and international sales finance information packages and programs in 1998.

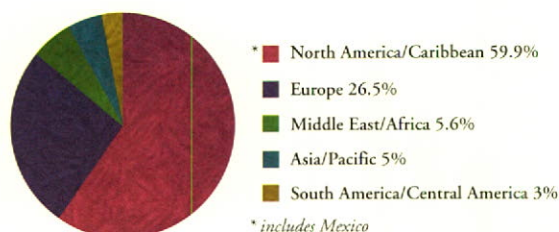
"EDC support is critical for GM Diesel's global expansion, particularly with the globalization of international markets and privatization taking place in the rail sector outside of North America."

Jeff McDonald,
Assistant Secretary and
Administrator of Financial
Operations, Diesel Division,
General Motors of Canada Limited,
London, ON

Business Volume
(\$ in millions)



Business Volume by Geographic Market





CUSTOMER SUPPORT TEAMS

UNDERLYING STRENGTH While EDC's business teams provide customers with the front-line support they need to expand their global business, these teams in turn require reinforcement to maximize customer support. Their underlying strength comes from EDC's specialized customer support teams, which provide expertise in such areas as credit surveillance and analysis, economics, equity, foreign investment insurance, international markets and project finance.

Reflecting back • Looking forward

CREDIT SURVEILLANCE & ANALYSIS GROUP

During 1997, EDC's Credit Surveillance & Analysis Group increased its permanent staff to bolster customer support. Four teams were created to provide specialized service, including two buyer high-risk teams. These two teams closely monitor EDC's short-term exposure in key industrial and geographic markets and provide the business teams with analytical support to assess buyer creditworthiness. As well, the Automated Credit Facilities Team continued to enhance its automation tools for quicker turnaround in assessing the risk of potential buyers.

In 1998, the team will again improve its turnaround time on decision making through enhanced automation and will provide customers with increasingly innovative and timely analytical support.

ECONOMICS DIVISION

EDC and its clients demand high-quality and timely information and advice on risks and opportunities in the global marketplace. In 1997, the Economics Division adopted new analytical methods and early warning systems for measuring economic and political risk, implemented new research tools and established broader information bases.

In 1998, the division will continue to sharpen its economic and political research and analysis capabilities. It will also find ways to more effectively share the results of this analysis with its customers.

EQUITY TEAM

The Equity Team was created in April 1997 to help EDC enhance its higher-risk capacity. The team provides supplemental, medium-term equity on a commercial basis for export transactions that generate direct, quantifiable benefits to Canada. EDC acts as an equity "catalyst" — a minority investor that leverages public- and private-sector capital.

The team will build upon its 1997 activities by working creatively with both exporters and co-investors. Transactions may include both individual investments and collaborative equity funds. The team is working on transactions in North America, Europe, Southeast Asia and the Far East.

"EDC's Foreign Investment Insurance Team played a key role in bringing the Alumbra financing together. Its customer focus and willingness to innovate make it an ideal partner."

Brent Cochrane,
Treasurer, Rio Algom Limited,
Toronto, ON

FOREIGN INVESTMENT INSURANCE TEAM

EDC's Foreign Investment Insurance Team continued to provide innovative, leading-edge political risk insurance support to investors, exporters and financial institutions in 1997. The team co-led a political risk insurance policy involving four other agencies, with coverage provided to a syndicate of banks lending to a major mining project in Argentina. Other firsts included issuance of a global insurance policy covering investments in several countries.

For 1998, the team is well positioned to take advantage of reinsurance and coinsurance risk partnering opportunities in support of its clients. The team will continue to support traditional business, such as resource-based projects in regions that include South America. It also anticipates increased demand for insurance cover for non-traditional industry sectors and in markets attracting increased attention, such as the former Soviet Union and Africa.

INTERNATIONAL MARKETS TEAM

During 1997, EDC's International Markets Team launched extended visits to China, Brazil and India and established a representative in Beijing. The team created new lending techniques, such as the prefunded Turk Eximbank US\$50 million line of credit. The team also launched EDC as a major sponsor of the Asia Pacific Economic Cooperation events in Canada during 1997.

The team will kick off 1998 by participating in the Team Canada trade mission to Mexico, Brazil, Argentina and Chile. The International Markets Team's focus on building key foreign relationships for EDC will continue to contribute to the creation of business opportunities for the long-term future of EDC and its customers.

PROJECT FINANCE TEAM

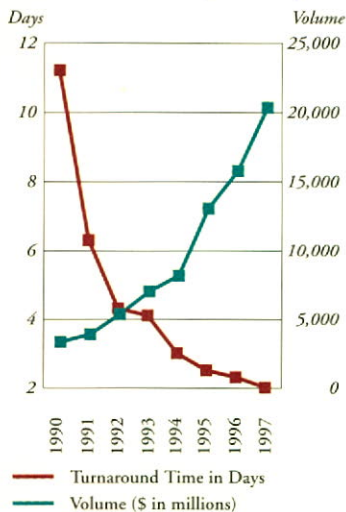
EDC's Project Finance Team closed its 30th project financing transaction in 1997. Its financing support provided over the past three years totals almost US\$2.2 billion, including close to US\$1.4 billion provided in 1997. EDC's limited recourse financing support meets Canadian exporters' growing needs for flexible and innovative structured financing for their projects.

The Project Finance Team expects recent events in Asia and other developing markets will impact on the number of project financings closed in 1998. Nevertheless, the number of proposals for EDC's limited recourse support is expected to increase in 1998.

"Nortel and our customers have benefited extensively from the superior project and structured finance skills that EDC staff bring to the table. EDC is our single most important financial partner in delivering customer financing solutions to our customers. Its specialized industry and project financing teams are at the heart of this success."

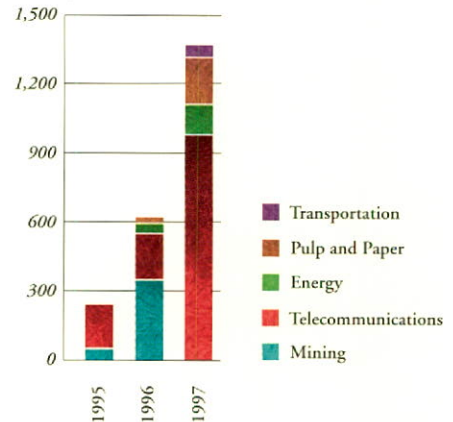
C.W.M. Scott,
Executive Vice-President,
Corporate and
Chief Financial Officer,
Northern Telecom Ltd.,
Brampton, ON

*Credit Surveillance & Analysis Group
Turnaround Time in Days vs. Short-term
Insurance Volume (\$ in millions)*



Enhanced automation has led to improved service.

*Project Finance Team
Signings by Sector and Year
(US\$ in millions)*





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Export Environment

Entering 1998, the dominant theme in the global marketplace continues to be the ongoing Asian financial crisis and the fallout Canada can expect from this economic downturn. Not only will the troubles in Southeast Asia negatively impact Canada's direct export prospects to the region, but indirectly, the crisis has weakened global commodity prices, slowed growth in other regions of the world and intensified competition.

Notwithstanding this rather bleak Asian economic outlook, the negative effects of the Asian contagion should not be overstated. The five countries forming the epicentre of the financial crisis — Thailand, Indonesia, South Korea, Malaysia and the Philippines — account for just over 3% of world demand and less than .5% of Canadian exports. While sales prospects in Southeast Asia are poor in the short term, prospects for most of Canada's other markets around the world remain good.

In the industrialized world, the star performer is our most important market, the United States. After seven years of expansion, the U.S. economy shows no sign of a downturn. Indeed, one of the major risks to sustained expansion — inflation in product markets, labour markets and asset markets — has been diminished considerably as the Asian crisis shatters "irrational exuberance" and puts downward pressure on product prices south of the border. The continued prospect of low interest rates will combine with higher wages and full employment to feed continued growth in consumer spending. This, together with continued buoyancy in investment spending, means that demand growth will register about 3% this year. Canadian exports to the United States are forecast to grow by 5.6% in 1998.

Low interest rates will also stimulate consumer and investment spending in continental Europe, although the impact on demand will be offset by the ongoing structural changes throughout 1998. Governments there are now in the midst of a major retrenchment, while corporate Europe is restructuring to regain lost competitiveness. The net result is a jobless recovery reminiscent of the one that Canada experienced in the mid-1990s — strong export demand alongside weak domestic demand; and a strengthening corporate sector alongside a weakening household sector. European domestic demand should register 2% to 2.5% this year. Canadian exports to Europe, having suffered through a near 6% drop in 1997, are expected to show improved growth of 1.7% in 1998.

In Japan, domestic demand has been deteriorating throughout 1997. Not only has the yen depreciated sharply against the U.S. dollar, but equity prices have dropped by over 27% since mid-1997. Despite this economic stagnation, a gradual recovery in consumer confidence, supported by an expected strengthening in labour market conditions, may improve the overall outlook for 1998. Still, Canadian exports to Japan peaked early in 1997 and have since been on a downward trend, reflecting poor demand conditions. This will limit Canada's export opportunities in this market in 1998. Overall Canadian exports to Japan are expected to decline by 1.6% in 1998.

Among the emerging markets, the contagion embodied in the loss of investor confidence has so far been largely contained to South Korea and the ASEAN-4 (the Philippines, Thailand, Indonesia and Malaysia).

In emerging Asia — outside the ASEAN-4 and South Korea — growth prospects are reasonably good. The mega-economies of India and China have been largely unchallenged by the markets and will continue to show rapid, albeit slower, growth in 1998. It is generally felt that Hong Kong, Singapore and Taiwan have economies sufficiently strong to withstand the effects of the Asian contagion. Market growth for Asia as a whole will be about 5.5% in 1998. This compares with 7% growth in 1997. As a result, Canadian exports to Asia are forecast to grow by 4% in 1998.

In Latin America, investors did attack the Brazilian real last fall, but thanks to a swift and cohesive policy response, Brazilian authorities were able to ward off the attack. However, the cost, in terms of economic growth for both Brazil and South America, was high. The consequence of a doubling of interest rates and a strong package of fiscal measures will lead to a drop in Brazil's economic growth from 3.5% in 1997 to 1.5% in 1998. This slowdown of Latin America's largest market will be transmitted to the region as a whole, where growth will slow from over 5% in 1997 to about 3.5% in 1998. Canadian exports to Latin America are expected to increase by 5.8% in 1998, after rising by an estimated 1.2% in 1997.

In Eastern Europe and the former Soviet Union, the Russian ruble came under intense pressure late in 1997, resulting in higher interest rates. Eastern Europe continues to offer strong growth prospects for 1998 despite the retrenchment under way in the Czech Republic. This will likely be mirrored by Slovakia and perhaps Poland. Economic growth of about 5% is forecast for 1998. Canadian exports to Eastern Europe and the former Soviet Union are expected to increase by 3.4% in 1998, after declining by an estimated 3% in 1997.

The bottom line is that Canadian exporters can look forward to reasonably good world market prospects in 1998. With global demand growth at 3.5%, Canadian exports overall should grow by about 5%, providing plenty of opportunity for Canadian exporters.

Performance against Objectives

EDC's vision of doing more business with more customers and taking on more risk on behalf of our customers, all in a financially sound manner, is tracked by way of a number of performance measures. These measures have been updated from the ones presented in the 1998 Corporate Plan to reflect revised estimates based on the final results for 1997.

CUSTOMER SATISFACTION

Customer satisfaction is fundamental to every aspect of our business. A component of our annual customer survey is the Customer Satisfaction Index (CSI), which rates our customers' overall satisfaction with EDC as well as their likelihood of recommending EDC to their business associates. The 1997 result was, essentially, in statistical terms, the same as in 1996, indicating that our customers are very satisfied with EDC. Since customers' expectations grow over time and the impact of EDC's actions takes time to translate into higher CSI scores, the 1998 target is to maintain customer satisfaction at the current level.

	1996 Actual	1997 Target	1997 Actual	1998 Target
CSI score (out of 100)	80.6	80.0	79.5	*

*Maintain customer satisfaction at the current level.

CUSTOMERS SERVED

The number of companies benefiting directly or indirectly from EDC services increased by 18%. Of these, 87% were small- and medium-sized enterprises, a priority customer segment for EDC.

	1996 Actual	1997 Target	1997 Actual	1998 Target
Customers served	3,150	3,600	3,711	4,325

BUSINESS VOLUME

A measure of our success in meeting the financial needs of our customers is the volume of business concluded during the year. The volume concluded under each of our programs increased in 1997, for a total increase of 30% over 1996 and 4% over the 1997 target. Continued growth is projected for 1998.

(\$ in billions)	1996 Actual	1997 Target	1997 Actual	1998 Target
Short-term	15.7	19.2	20.3	23.3
Medium- and long-term	6.3	8.3	8.3	9.4
Total	\$22.0	\$27.5	\$28.6	\$32.7

PRODUCTIVITY

Productivity, measured by the volume of business supported per dollar spent on administration, increased by 14% in 1997, exceeding the target as a result of higher than projected business volume.

	1996 Actual	1997 Target	1997 Actual	1998 Target*
Productivity ratio	\$367	\$400	\$417	<16%

**This measure is being replaced in 1998 by a ratio of administrative expenses to net operating income to better reflect market practice.*

FINANCIAL RESULTS

EDC recognizes the need to secure a solid financial foundation to ensure long-term competitive support to our customers. As such, we need to augment our capital base through retention of net income in order to meet the growing demands of our customers and to take on more risk on their behalf. Net income for 1997 fell short of the target largely because most of the impact of debt relief totaling \$141 million expected during the year did not materialize, as the country concerned did not meet International Monetary Fund (IMF) criteria for Paris Club debt relief.

(\$ in millions)	1996 Actual	1997 Target	1997 Actual	1998 Target
Net income	\$112	\$226	\$128	\$100-200

Operating Highlights**Income Statement Discussion****NET INCOME**

Net income reported for 1997 was \$128 million, an increase of \$16 million over the 1996 level of \$112 million. The higher profit for 1997 was the result of significant volume increases both in financing and insurance, generating a \$30 million increase in net interest income and a \$20 million increase in premium and fee revenue. These effects were partially offset by a higher provision for credit losses and higher administrative expenses.

The following table outlines net income and return on shareholder's equity over the last five years:

(\$ in millions)	1997	1996	1995	1994	1993
Net income	128	112	44	171	41
Shareholder's equity	1,545	1,417	1,173	1,091	895
Return (%) on shareholder's equity	8.3	7.9	3.8	15.7	4.6

NET INTEREST INCOME

Net interest income increased by 9% to \$363 million from the 1996 level of \$333 million.

For 1997, net interest income was \$363 million on average assets employed of \$12,888 million, yielding a net margin of 2.82%. The net margin is defined as net interest income expressed as a percentage of average assets employed.

In 1996, the Corporation adopted the new accounting standards for impaired loans and changed the method by which cash receipts for impaired loans from either impaired borrowers or the Government of Canada through debt relief are applied. Commencing in 1996, no portion of cash received for impaired loans is recorded as interest earned until such time that any specific allowance has been reversed. Prior to 1996, large payments were received for impaired loans and significantly increased loan interest earned.

The following table shows both net interest income, as reported in the financial statements, and adjusted net interest income, which excludes interest from impaired loans to provide better comparability with years prior to 1996. These amounts are shown with the average assets employed over the last five years.

(\$ in millions)	1997	1996	1995	1994	1993
Average gross loans receivable	11,129	10,073	9,803	9,018	8,306
Average cash, marketable securities and investments	1,759	1,701	1,269	1,587	1,770
Total average assets employed	12,888	11,774	11,072	10,605	10,076
Interest income:					
Loan interest earned	752	671	799	737	540
Investment interest earned	92	99	87	59	91
Total interest income	844	770	886	796	631
Interest expense	481	437	485	458	427
Net interest income	363	333	401	338	204
Impaired interest income	3	-	127	230	95
Adjusted net interest income	\$360	\$333	\$274	\$108	\$109

Loan Interest Earned

Loan interest earned increased by \$81 million in 1997, the result of overall growth achieved in the loans portfolio.

For 1997, loan interest earned was \$752 million, an increase of \$81 million from the level of \$671 million in 1996. Loan interest earned includes \$42 million (1996 – \$39 million) relating to the amortization of non-accrued capital-

ized interest for performing loans previously classified as impaired. Loan interest earned also includes exposure fees of \$39 million (1996 – \$37 million) and debt relief revenue of \$3 million (1996 – nil).

The following table analyzes loan interest earned as a percentage of the average loans receivable for 1997 with 1996 comparatives:

(\$ in millions)	1997				1996	
	Increase/(decrease)					
	\$	%	\$	%	\$	%
Loans receivable:						
Average performing fixed rate	404	9	4,685		4,281	
Average performing floating rate	702	18	4,575		3,873	
Average impaired	(50)	(3)	1,869		1,919	
Average gross loans receivable	1,056	10	11,129		10,073	
Loan interest earned:						
Performing fixed rate interest earned	25	7	377		352	
Performing floating rate interest earned	48	20	291		243	
Other loan interest earned	8	11	84		76	
Total loan interest earned	\$81	12%	\$752	6.8%	\$671	6.7%

The performing fixed rate loans receivable averaged \$4.7 billion in 1997 (1996 – \$4.3 billion) with an average coupon rate of 7.94% (1996 – 8.06%). The yield on the fixed rate portfolio continued its gradual decline in 1997, due to the replacement of older loans earning the higher interest rates reflective of previous periods with current loan signings which carry the lower interest rates of recent years. The performing floating rate loans receivable averaged \$4.6 billion in 1997 (1996 – \$3.9 billion) with an average coupon rate of 6.22% (1996 – 6.19%).

The increase in the average balance for both the fixed and floating rate portfolios during 1997 was primarily the result of loan disbursements exceeding repayments.

Investment Interest Earned

The following table analyzes investment interest earned as a percentage of the average cash, marketable securities and investments for 1997 with 1996 comparatives:

(\$ in millions)	1997		1996	
	Increase/(decrease)			
	\$	%	\$	%
Average cash and marketable securities	(38)	(3)	1,357	1,395
Average investments	96	31	402	306
Total	58	3	1,759	1,701
Investment interest earned	\$ (7)	(7)%	\$92	5.2%
			\$99	5.8%

Investment interest earned was \$92 million for 1997 (1996 – \$99 million) resulting in an average return of 5.2% (1996 – 5.8%). During 1997, the proportion of Canadian dollar denominated securities increased to 40% of the total average balance (1996 – 18%) while the proportion of U.S. dollar denominated securities decreased to 36% (1996 – 50%). This was due to the implementation of a new investment strategy that focused on increasing the Canadian dollar portfolio. Interest rates in Canada are lower than in the U.S. market. The reduced average return of 5.2% for 1997 is indicative of the interest rate environment experienced during 1997 in both these markets and also reflects EDC's move to a more heavily weighted Canadian dollar portfolio.

Interest Expense

The following table analyzes interest expense as a percentage of the average loans payable for 1997 with 1996 comparatives:

(\$ in millions)	1997		1996	
	Increase/(decrease)			
	\$	%	\$	%
Average fixed rate payables	(157)	(6)	2,336	2,493
Average floating rate payables	843	16	6,071	5,228
Average deferrals, unamortized discounts and premiums	(6)	(11)	48	54
Average total loans payable	680	9	8,455	7,775
Net interest expense	41	9	489	448
Foreign exchange translation (gain)/loss	(3)	(27)	(8)	(11)
Total interest expense	\$44	10%	\$481	5.7%
			\$437	5.6%

Interest expense for 1997 totalled \$481 million, a 10% increment over the 1996 level of \$437 million. The increase was the result of a larger loans payable balance and higher interest rates in both Canada and the United States in 1997.

The average loans payable balance increased by 9% to \$8,455 million in 1997. Additional funding was required to support the growth of loan assets on EDC's books.

The Bank of Canada raised short-term interest rates in Canada by 125 basis points in 1997, while interest rates in the United States increased by 25 basis points over the same period. Since EDC's floating rate portfolio represents over 70% of the total loans payable outstanding, any increase in interest rates translates into a higher interest expense for the period.

Included in interest expense was an \$8 million foreign exchange gain (1996 – \$11 million gain).

PREMIUM AND FEE INCOME

Insurance Premiums and Guarantee Fees

Insurance premiums have increased as a direct result of the increase in insurance volumes, primarily in the short-term program.

The following table analyzes insurance premiums and guarantee fees as a percentage of insured volumes and average loan guarantees exposure for 1997, with 1996 comparatives:

(\$ in millions)	1997		1996	
	Increase/(decrease)			
	\$	%	\$	%
Short-term program:				
Insured volumes	4,576		20,332	
Premiums and fees earned	6	(.06)	73	.36
Medium-term program:				
Insured volumes	254		2,850	
Premiums and fees earned	-	(.07)	22	.78
Medium-term loan guarantees average exposure	192		576	
Medium-term loan guarantee fees earned	1	(.03)	4	.78
Total average premium and fee rate		(.07)%		.42%

Short-term insurance revenues contributed \$73 million or 79% of 1997 premium revenue, an increase of 9% over 1996. This was the direct result of the growth in short-term insurance volumes which increased by \$4.6 billion, or 29% over 1996.

The medium-term program revenues for the year were \$22 million, no change from the 1996 revenues.

Premium and fee revenue of \$99 million was recorded for 1997, an 8% increase over the 1996 level of \$92 million. Total premiums and fees earned as a percentage of insured volumes and average loan guarantees exposure decreased from 0.49% in 1996 to 0.42% in 1997. The average premium rate in both the short-term and medium-term programs decreased largely due to increased volumes of business in lower-risk markets.

Other Fees

(\$ in millions)	1997	1996	1995	1994	1993
Other fees	\$30	\$17	\$14	\$17	\$16

Other fees consist primarily of revenue from loan administration fees and commitment fees. These fees increased significantly in 1997, mainly as a result of the overall growth in business volumes.

PROVISION FOR CREDIT LOSSES

The following table analyzes the expense for the provision for credit losses over the last five years:

(\$ in millions)	1997	1996	1995	1994	1993
Provision for credit losses					
pertaining to:					
Loans	184	190	327	137	152
Guarantees	52	12	14	3	4
Insurance claims	59	68	49	40	25
Total provision for credit losses	\$295	\$270	\$390	\$180	\$181

The Corporation assesses the carrying value of its loan assets on an annual basis and determines the appropriate allowance necessary to maintain its financial integrity. During 1997, a charge for the provision for losses on loans was made to the income statement in the amount of \$184 million (1996 – \$190 million). Of the \$184 million, approximately \$52 million was the result of management's enhancement of the methodology for estimating the general allowance for loan losses, which was implemented during the year. In addition, \$73 million was due to the recent evidence of impairment in Southeast Asia. The balance was a result of the significant growth in the commercial loans portfolio. The strong continuing growth in the commercial portfolio and the magnitude of the provisions for credit losses are evidence of the Corporation's continuing commitment to prudent asset management policies.

The Corporation assesses the loan guarantees on the same basis as direct loans. During 1997, a charge for the provision for losses on loan guarantees was made to the income statement in the amount of \$52 million (1996 – \$12 million). Of the \$52 million, \$22 million was due to the downgrade of Turkey and \$18 million was a result of the significant growth in commercial loan guarantees. An additional \$10 million resulted from the enhancement to the methodology for determining the allowance for loan guarantees.

During the year, there was a \$59 million charge to the income statement for the provision for insurance claims. The decrease in current insurance claim provisioning levels was the result of the year-end actuarial allowance valuation.

ADMINISTRATIVE EXPENSES

Net administrative expenses for 1997 totalled \$69 million, up 15% from the prior year. The increase in administrative expenses was primarily the result of hiring additional staff during the year to handle the growth in business volumes. This augmentation of the staff complement translated into increased expenditures for salaries, benefits and accommodation costs for 1997.

Canada Account Transactions

Under the *Export Development Act*, the Minister for International Trade, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain transactions of a financial nature to support and develop export trade. All monies required by the Corporation to discharge its obligations under these transactions must be paid to the Corporation by the Minister of Finance out of the Consolidated Revenue Fund. The Corporation must remit all receipts and recoveries in respect of these transactions to the Government of Canada, less amounts which it is authorized to retain to meet expenses and overhead related to these transactions. These transactions, and the legislative authorities which underlie them, have come to be known collectively as the "Canada Account". Accounts for the program are maintained separately from the Corporation's accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada. Following are the financial highlights *for the 12 months to December 31, 1997*:

- Canada Account business volume for this period was \$1,901 million, of which \$1,584 million was for direct consensus terms financing and \$317 million pertained to insurance and related guarantees provided.
- The Corporation administered total assets of \$2,941 million, consisting of \$2,900 million from the lending program and \$41 million from the insurance program. The loan assets were mainly denominated in U.S. dollars (92%) followed by Canadian dollars (7%) and European currency units (1%).
- Actual disbursements amounted to \$121 million, including \$78 million for loans signed under consensus terms, \$37 million for concessional loans, and \$6 million for claims paid under the insurance program. Canada Account remitted to the Consolidated Revenue Fund \$292 million, of which interest and fee revenue totalled \$96 million, while the repayment of loan advances amounted to \$196 million and there were no recoveries on claims.
- The Corporation retained \$19 million from Canada Account receipts and recoveries to meet expenses and overhead related to Canada Account transactions.

Planning Comparison and Prospects for 1998

COMPARISON TO 1997 CORPORATE PLAN

Business volume for 1997 reached a record \$28.6 billion, an increase of 30% over the 1996 level of \$22.0 billion and surpassing the 1997 planned volume of \$26.0 billion. This increase over Plan was primarily due to the short-term insurance volume of \$20.3 billion exceeding Plan by \$1.5 billion.

The impact on the Corporation's balance sheet of the increased activity over the last two years in the loans signings volume was substantial, generating a 28% increase in net loans receivable over Plan and a 26% increase in loans payable over Plan. However, there is still a significant portion of the signings to be disbursed in future years.

The table below shows the comparison of the 1997 income statement with the Plan. The 1997 net income of \$128 million fell short of the planned earnings of \$226 million, primarily because most of the impact of debt relief totaling \$141 million expected during the year did not materialize, as the country concerned did not meet IMF criteria for Paris Club debt relief.

PROSPECTS FOR 1998

In 1998, increases in business volumes are anticipated, although not to the same degree as in recent years, with planned volume of \$32.7 billion. The loans receivable and loans payable balances are expected to increase as a result of loans signed in 1998 and the large amount of undisbursed loans with respect to 1997 signings. The loans allowance is expected to increase to reflect these higher disbursements which are largely taking place in the commercial sector and have a higher risk profile. In summary, planned total assets in 1998 will increase to \$13.2 billion from \$11.8 billion in 1997, liabilities will increase to \$11.5 billion from \$10.3 billion and as a result, shareholder's equity will increase to \$1.7 billion.

As can be seen from the table, for 1998, the major planned income variances from the 1997 actual results are represented by higher net interest income due to the increased loans and liquidity portfolios. This will be partially offset by increased provisions for credit losses and administrative expenses. Provisions will increase to reflect the additional credit risks resulting from the expanding loans portfolio, while administrative expenses are expected to increase in 1998, due primarily to a larger workforce and investments in technology, which will result in higher depreciation costs.

(\$ in millions)	1998	1997	1997
	Corporate Plan	Actual Results	Corporate Plan
Interest income			
Loan interest earned	906	752	664
Investment interest earned	123	92	118
	1,029	844	782
Interest expense	596	481	440
Net interest income	433	363	342
Premium and fee income			
Insurance premiums and guarantee fees	104	99	100
Other fees	32	30	53
	136	129	153
Provision for credit losses	334	295	203
Income after provision for credit losses	235	197	292
Administrative expenses	81	69	66
Net income	\$154	\$128	\$226

Risk Management

EDC is in the business of providing exporters with tools that allow them to manage the risks they face while doing business internationally. In doing so, EDC is also in the business of taking risks and must therefore prudently manage these risks to ensure its long-term financial health.

Credit Risk

Credit risk is the risk of loss incurred if a counterparty fails to meet its financial commitments. EDC is exposed to credit risk under its loans and insurance programs and treasury activities. The Corporation has risk management policies in place to help it continuously monitor these credit exposures.

In order to better understand and respond to the needs of the Canadian exporter, the Corporation is organized into business teams along industry sectors. Significant potential transactions with respect to credit risk and structure are reviewed by the Risk Management Office prior to authorization. Country limits are established and reviewed continually by the International Markets and Economics departments to take into

consideration any changes within the world environment. The Corporation is continuously reviewing its processes and systems in order to improve the administration and overall control of all agreements associated with financing and insurance transactions. Counterparty exposure and location are monitored on a regular basis for credit risk.

CONCENTRATION OF EXPOSURE

The following table reflects the major concentrations of total commercial and sovereign exposure in the country where the ultimate risk resided for all operations at the end of 1997.

The following countries accounted for 64% of the Corporation's total exposure:

Market (\$ in millions)	Gross loans receivable	Undisbursed commitment	Contingent liabilities		* Investments & derivative financial instruments	1997 Exposure	
			Short- term	Medium- term		\$	%
U.S.	2,210	1,938	2,317	62	150	6,677	22.4
Canada	609**	1,385**	975	443***	1,365	4,777	16.0
China	1,155	923	148	111	-	2,337	7.8
United Kingdom	344	740	128	240	206	1,658	5.6
Indonesia	560	389	32	161	-	1,142	3.8
Mexico	609	94	297	20	-	1,020	3.4
Peru	633	-	13	66	-	712	2.4
Brazil	486	4	176	34	-	700	2.4
Other	5,767	1,009	1,614	1,887	512	10,789	36.2
Total	\$12,373	\$6,482	\$5,700	\$3,024	\$2,233	\$29,812	100.0%

* Investments include amounts represented by cash, marketable securities and investments, as shown on the Balance Sheet.

** Includes the impact of one transaction signed in 1997 for \$1,500 million with recourse to the Government of Canada in the event of default.

*** Includes \$425 million of surety bond insurance. A total of 90% of the exports insured in the surety bond program were to the United States.

LOANS PORTFOLIO

The loans portfolio experienced rapid growth in 1997, with gross loans receivable increasing by 18% or \$1,869 million over the 1996 level.

Gross loans receivable increased by \$1,869 million from the 1996 level of \$10,504 million to \$12,373 million at December 31, 1997. Most of this increase was fuelled by the growth of the loans portfolio, with disbursements exceeding repayments by \$1,461 million. The remaining increase was the result of foreign exchange translation and the capitalization of interest. The Corporation disbursed \$3,321 million in 1997, surpassing the 1996 record of \$2,463 million by \$858 million, an increase of 35%. For 1997, loan repayments amounted to \$1,860 million (1996 – \$1,980 million). Included in the repayments are amounts received from the Government of Canada for debt relief, mainly relating to principal, of \$17 million (1996 – \$101 million).

LOAN ASSET QUALITY

Commercial loans now comprise 50% of the Corporation's performing gross loans receivable, up from 43% in 1996, reflecting the continuing movement in the portfolio from sovereign to commercial assets.

The performing gross loans receivable grew significantly in 1997, moving to \$10,588 million from the 1996 balance of \$8,585 million. The increase was due to the continued high growth in commercial loans from \$3,652 million to \$5,271 million. The sovereign performing portfolio increased only slightly from \$4,933 million to \$5,317 million. These changes highlight the movement in the Corporation's loans portfolio from sovereign to commercial loan assets.

During 1997, impaired loans, as a percentage of total gross loans receivable, continued to decrease, from 18% to 14%. This was the result of the reclassification of loans totaling \$142 million in seven countries (Bulgaria, Costa Rica, Gabon, Guatemala, Honduras, Kenya and Panama) from impaired to performing, as well as the rapid growth in the total gross loans receivable. Loans receivable of \$18 million were written off in 1997.

IMPAIRED LOANS

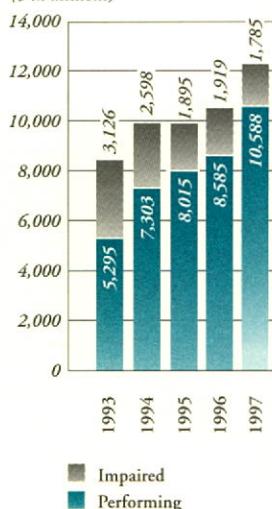
Cash received, including both principal and interest, from the impaired portfolio has been significant since 1993, averaging around 4% of the total portfolio.

The following cash flows pertain to sovereign debtors and represent to a large extent the long-term efforts of multilateral rescheduling arrangements through the Paris Club:

(\$ in millions)	1997	1996	1995	1994	1993
Average impaired gross loans receivable	1,869	1,919	2,247	2,862	2,948
Impaired receipts (principal and interest)	86	89	182	115	91
Cash flow as a percentage of average loans	4.6%	4.6%	8.1%	4.0%	3.1%

Payments received from the Government of Canada for debt relief for impaired loans were \$17 million in 1997. These payments related to impaired loans in Côte d'Ivoire (\$7 million), Guyana (\$5 million) and Congo (\$5 million). These amounts are not included as receipts in the above chart.

Performing and Impaired Loans
(\$ in millions)



The largest receipts for impaired loans, including contractual principal and interest from sovereign borrowers, were as noted:

(\$ in millions)	1997		1996
Peru	32	Peru	29
Venezuela	11	Kenya	12
Cameroon	10	Gabon	11
Gabon	8	Cameroon	10
Russia	6	Bulgaria	6
Other	19	Other	21
Total	\$86	Total	\$89

LOAN ASSET RISK CONCENTRATION

Sovereign Loans

The Corporation has the following sovereign risk concentrations for its performing gross loans receivable:

(\$ in millions)	1997			1996	
	\$	%		\$	%
China	1,155	22	China	1,113	23
Indonesia	457	9	Algeria	435	9
Algeria	448	8	Indonesia	400	8
Venezuela	372	7	Mexico	337	7
Brazil	290	5	Brazil	336	7
Other	2,595	49	Other	2,312	46
Total	\$5,317	100%	Total	\$4,933	100%

Generally, the level of concentration has not increased for sovereign counterparties, but risk concentration becomes more significant when the sum of loans receivable and undisbursed loan commitments, referred to as exposure, is taken into consideration. The concentration in Canada now represents 43% of the total undisbursed sovereign loan commitments, as a result of the signing in 1997 of a loan agreement for \$1,500 million, for which the Government of Canada will provide recourse to the Corporation in the event of a loan default.

The largest undisbursed loan commitments by sovereign borrowers are as follows:

(\$ in millions)	1997			1996	
	\$	%		\$	%
Canada	1,272	43	China	386	37
China	923	31	Turkey	188	18
Venezuela	187	6	Venezuela	151	14
Algeria	122	4	Indonesia	74	7
Turkey	112	4	Israel	51	5
Other	330	12	Other	199	19
Total	\$2,946	100%	Total	\$1,049	100%

Commercial Loans

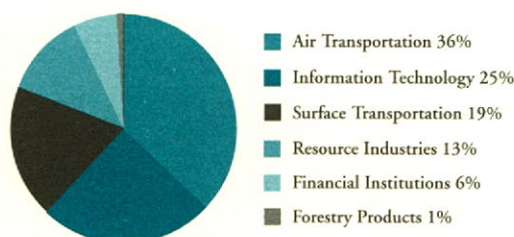
Risk concentration in the commercial loans portfolio moved toward the information technology sector in 1997, with the sector now representing 31% of total commercial loan exposure.

The five counterparties comprising the Corporation's largest commercial loan balances collectively represent 29% of the total performing gross loans receivable, a decline from the 1996 level of 39%. The largest commercial loan exposure (including loans receivable and undisbursed loan commitments) to a single counterparty, a company from the surface transportation sector in the United States, is \$1,651 million. The information technology sector grew to represent the largest industry risk concentration, now composing 41% of the undisbursed commercial loan commitments of \$3,536 million, up from only 15% in 1996. The loans receivable in the information technology sector also increased, from 18% of performing commercial loans receivable in 1996 to 25% in 1997.

Commercial Undisbursed Commitments



Commercial Performing Loans



ALLOWANCE FOR LOSSES ON LOANS

EDC continues its commitment to prudent risk management by maintaining a conservative level of allowances for loan losses.

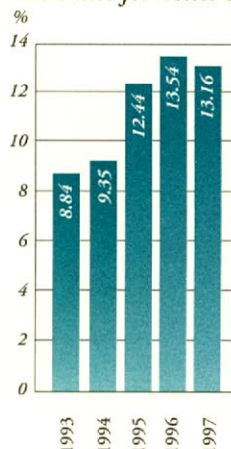
During 1997, the allowance for losses on loans increased by \$205 million or 14% to \$1,628 million from the December 31, 1996 balance of \$1,423 million. The 1997 charge to the income statement for the loan loss provision was \$184 million (1996 – \$190 million). The Corporation improved its loan loss allowance methodology, and as a result of this enhancement, the total allowance for loan losses increased by \$52 million. The allowance as a percentage of gross loans receivable decreased slightly to 13.2% compared to 13.5% in 1996.

The Corporation categorizes its performing commercial and sovereign loans using a rating system of "1" to "4" (high investment grade to speculative grade), then establishes an appropriate general allowance for each performing risk category. For impaired loans, a specific allowance is determined based on discounted projected cash flows.

Sovereign

The Corporation classifies each sovereign counterparty by common characteristics based on risk categories or pools using external credit-rating agencies. For those countries not specifically rated, an assessment using external and internal benchmarks is employed to classify unrated countries relative to those that are rated. A general allowance rate is applied to exposure after considering default rates based on external credit-rating agencies and the Corporation's own historical loss experience.

Allowance for Losses on Loans



■ % Allowance to
Gross Loans Receivable

The 1997 sovereign allowance on loans as a percentage of exposure is as follows:

(\$ in millions)	1997			1996		
Provision category*	Allowance	Exposure**	%	Allowance	Exposure**	%
1 High investment grade, ≥A3	1	135	1	4	236	2
2 Medium investment grade, = Baa1 to Baa3	31	1,688	2	76	1,883	4
3 Below investment grade, = Ba1 to Ba3	171	1,713	10	126	1,262	10
4 Speculative grade, <Ba3	337	1,530	22	133	1,328	10
5 Impaired	390	851	46	534	1,013	53
Sub-total	930	5,917	16	873	5,722	15
General allowance risk concentration	-	-		117		
Total	\$930	\$5,917	16%	\$990	\$5,722	17%

* Moody's long-term rating.

** Exposure includes gross loans receivable, net of non-accrued capitalized interest.

The sovereign allowance decreased by \$60 million from the 1996 level of \$990 million.

A decline of \$144 million in the portion of the allowance relating to impaired sovereign loans was due to a number of contributing factors. The estimated future cash flows and the non-accrued capitalized interest on impaired loans increased, both of which caused a reduction to the required allowance. In addition, loans in the following countries were returned to performing status: Bulgaria, Costa Rica, Gabon, Guatemala, Honduras, Kenya and Panama. Since cash receipts from impaired borrowers and the Government of Canada are applied to the book value of these loans, this reduction in book value translates into a reduction in the allowance.

The sovereign allowance on performing loans increased by \$84 million as a result of credit migration to speculative grade of some countries in Southeast Asia. This increase was slightly offset by the upgrade, by external credit-rating agencies, of Argentina. Approximately \$117 million of the 1996 risk concentration was reclassified to the sovereign general allowance.

The following table outlines the effect of these changes on the general allowance for losses on sovereign loans:

(\$ in millions)	1997
Balance at beginning of year	990
Change in allowance rates	3
Credit migration	55
Portfolio growth	9
Revaluation of impaired	(144)
Foreign exchange	17
Balance at end of year	\$930

Commercial

The Corporation undertakes loan reviews to assess the financial condition of the borrowers or guarantors and their ability to meet their obligations to EDC. When available, the Corporation utilizes external credit ratings on its commercial borrowers in order to classify commercial loans receivable into credit categories. When these ratings are unavailable, loan reviews and an internal rating system are used to determine the appropriate classification for a particular loan. For each rating classification, a general allowance rate is established using default rates developed by external credit-rating agencies and the Corporation's own historical loss experience for each risk pool. The rates are then applied to exposure to derive a general allowance for performing loans.

The 1997 commercial allowance on loans as a percentage of exposure is as follows:

(\$ in millions)		1997			1996		
Provision category*	Allowance	Exposure**	%	Allowance	Exposure**	%	
1 High investment grade, ≥A3	30	1,704	2	60	1,831	3	
2 Medium investment grade, = Baa1 to Baa3	31	856	4	18	296	6	
3 Below investment grade, = Ba1 to Ba3	195	1,390	14	82	690	12	
4 Speculative grade, <Ba3	344	1,321	26	99	835	12	
5 Impaired	98	103	95	127	132	96	
Sub-total	698	5,374	13	386	3,784	10	
General allowance risk concentration	-	-		47			
Total	\$698	\$5,374	13%	\$433	\$3,784	11%	

*Moody's long-term rating.

**Exposure includes gross loans receivable, net of non-accrued capitalized interest.

The commercial allowance rose by \$265 million to \$698 million from \$433 million a year earlier. The commercial allowance for performing loans increased by \$294 million as a result of the significant increase in the performing portfolio.

Loans classified as impaired decreased by \$29 million, and performing commercial exposure increased by \$1,619 million, primarily in the below investment and speculative grades. The general allowance increased in line with the increases in exposure and risk rating of that exposure.

The following table outlines the changes to the general allowance for losses on commercial loans:

(\$ in millions)	1997
Balance at beginning of year	433
Change in allowance rates	49
Credit migration	9
Portfolio growth	215
Revaluation of impaired	(11)
Write-off	(18)
Foreign exchange	21
Balance at end of year	\$698

LOAN COMMITMENTS

The following table profiles the committed undisbursed loan balances by credit-rating grade:

(\$ in millions)						
Provision category*	Sovereign	%	Commercial	%	Total	%
1 High investment grade, ≥A3	1,418	48	1,334	38	2,752	42
2 Medium investment grade, = Baa1 to Baa3	860	29	210	6	1,070	17
3 Below investment grade, = Ba1 to Ba3	199	7	619	18	818	13
4 Speculative grade, <Ba3	469	16	1,364	38	1,833	28
5 Impaired	-	-	9	0	9	0
Total	\$2,946	100%	\$3,536	100%	\$6,482	100%

*Moody's long-term rating.

The largest balance of undisbursed loans is in the high investment grade category, comprising \$2,752 million or 42% of the total undisbursed loan commitments. Included in this category are undisbursed commitments of \$1,351 million for which EDC has recourse to the Government of Canada in the event of default. The next largest provision category in the portfolio is the speculative grade (<Ba3), making up 28% of the total undisbursed commitments. The Corporation has 41% of its undisbursed commitments in below investment grade credit risk categories. This large concentration in the below investment grade categories is the result of several factors, including the significant growth in the commercial portfolio and, in particular, growth in limited recourse transactions in the information technology and resource sectors.

INSURANCE PORTFOLIO

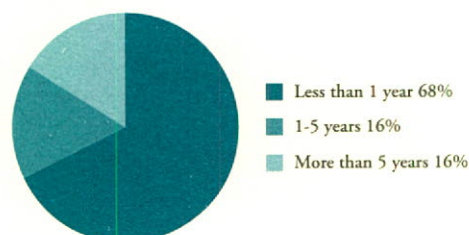
CONTINGENT LIABILITIES

The Corporation's contingent liabilities increased by 17% to \$8,724 million in 1997.

Insurance policies in force and guarantees increased during 1997 to \$8,724 million from the 1996 level of \$7,432 million, an increment of \$1,292 million, or 17%. The medium-term programs increased by \$673 million, or 29%, from the 1996 level of \$2,351 million, and the short-term programs increased by \$619 million, or 12%, from the 1996 level of \$5,081 million.

At December 31, 1997, there was a slight shift toward longer policy terms when compared to contingent liabilities outstanding at December 31, 1996. At the end of 1997, policies with terms of less than one year comprise 68% of the total contingent liabilities, whereas at the end of 1996, policies with terms of less than one year accounted for 71% of the portfolio.

Contingent Liabilities by Policy Term



Short-Term Program

Size Concentration

During 1997, the short-term program supported 3,399 customers. In terms of total declared volume, the top five customers represented 22% of the total 1997 declared volumes (1996 – 17%). The number of policyholders with declared volume of over \$10 million per year has been steadily increasing over the last several years. Risk concentration has been growing in the short-term portfolio where large (over \$10 million) buyers now account for more than 28% of the total authorizations. This risk has been taken into account in the year-end actuarial claims valuation.

The following table shows the number of buyers supported, classified by exposure size within the short-term portfolio:

(\$ in thousands)		1997
\$ Value of exposure	Number of buyers	
1-500		29,909
501-2,000		3,270
2,001-5,000		813
5,001-10,000		290
10,001 and over		208
Total		34,490

Country Concentration

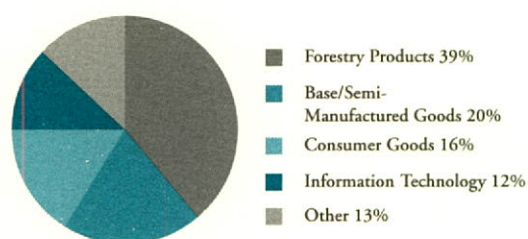
The top five countries represent \$4,097 million, or 72% of the total short-term contingent liability of \$5,700 million. The level of concentration has increased slightly from the 1996 level of 70%. The country with the largest concentration remains the United States, representing 41% of all short-term liabilities outstanding. Canada remains in second place due to the increasing use of domestic insurance by exporting companies. Domestic insurance now represents almost 15% of the total short-term insurance volume.

The largest concentrations within the short-term program are in the following countries:

(\$ in millions)		1997		1996	
	\$	%		\$	%
U.S.	2,317	41	U.S.	1,580	31
Canada	975	17	Canada	612	12
Japan	332	6	Brazil	585	11
Mexico	297	5	Mexico	391	8
Brazil	176	3	Iran	390	8
Other	1,603	28	Other	1,523	30
Total	\$5,700	100%	Total	\$5,081	100%

The Corporation rates country risk on a scale of "1" to "5" with "1" being the lowest risk and "5" being the highest risk. The comparative spread of risk in terms of country risk classification within the short-term contingent liabilities has shifted to lower-risk countries relative to 1996 levels. The total exposure within category "1" and "2" countries has grown by \$1,442 million and represents 84% of the total short-term liability (1996 – 66%). This shift is a result of significant growth in coverage in both the United States and Canada combined with decreased exposures in two higher-risk markets.

Short-Term Contingent Liabilities



Industry Concentration

The overall percentage concentration by industry sector/business team has remained relatively unchanged, with a 4% increase in the forestry sector when compared to the 1996 concentrations.

Medium-Term Insurance Program and Guarantees

Size Concentration

During 1997, 308 customers were supported in the medium-term program (1996 – 289). The top five customers represented 37% of the 1997 medium-term insurance policies and guarantees in force (1996 – 35%). In terms of policy size, the five largest policies and loan guarantees in force as at December 31, 1997 represent 25% (1996 – 28%) of the total medium-term policies and guarantees in force.

Country Concentration

As at December 31, 1997, the medium-term liability portfolio comprises 1,265 transactions in 104 countries (1996 – 1,049 transactions in 92 countries), with an average per risk exposure of \$2 million (1996 – \$2 million).

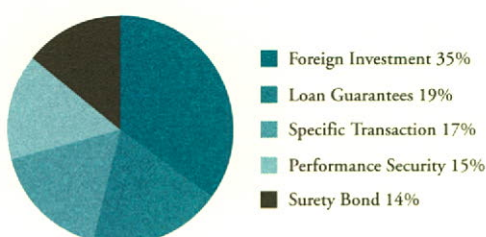
The largest contingent liabilities in terms of ultimate risk within the medium-term portfolio are in the following countries:

(\$ in millions)		1997		1996	
	\$	%		\$	%
Canada	443	15	Canada	312	13
Turkey	254	8	Colombia	290	12
Argentina	246	8	Turkey	246	11
United Kingdom	240	8	Argentina	176	8
Colombia	215	7	United Kingdom	142	6
Other	1,626	54	Other	1,185	50
Total	\$3,024	100%	Total	\$2,351	100%

The country with the largest concentration in terms of contingent liability is Canada. Most of this amount (\$425 million) represents surety bond insurance (1996 – \$295 million), 90% of which is to support exports to the United States (1996 – 88%). Exposure in Turkey and the United Kingdom represents guarantees to support loan agreements signed with these countries. The five countries with the largest contingent liabilities represent 46% of the total medium-term contingent liabilities (1996 – 50%).

In terms of country risk concentration, there was an improvement in country risk quality within the medium-term contingent liability as at December 31, 1997, compared to December 31, 1996. The aggregate concentration within the lower-risk countries (defined as “1” and “2”) increased to 53% from the 1996 level of 44%.

Concentration by Program



Program Concentration

The program with the largest increase in contingent liability during 1997 was the specific transaction program. Specific transaction exposure has grown from \$322 million in 1996 to \$508 million in 1997. Exposure as a percentage of overall medium-term contingent liabilities in all other medium-term insurance programs remained relatively unchanged.

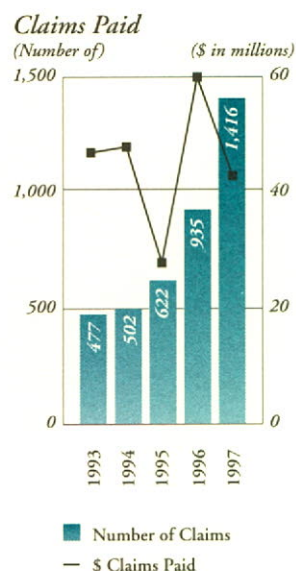
Industry Concentration

Within the medium-term programs, there was an increased concentration in the transportation sector from 12% in 1996 to 23% in 1997 and a decrease in the engineering and professional services sector from 44% in 1996 to 32% in 1997. The overall levels of concentration in all other industry sectors remained relatively unchanged.

CLAIMS EXPERIENCE

(\$ in millions)	1997	1996
Claims paid	43	60
Claims recovered	16	11
Net claims	\$27	\$49

In 1997, the Corporation paid 1,416 claims for a total of \$43 million and recovered \$16 million. During the same period in 1996, the Corporation paid 935 claims for a total of \$60 million and recovered \$11 million.



There were 1,373 default and insolvency claims paid totaling \$41 million in 1997 compared to 873 claims paid totaling \$36 million in the prior year, an increase of 11% in claim payments. Within this category, 88% of the claim payments were paid on behalf of customers' losses in the United States (\$25 million), Canada (\$7 million), Mexico (\$2 million) and France (\$2 million).

In 1997, there were no claim payments made for transfer risk, whereas in 1996, \$20 million in claim payments was made for transfer risk on behalf of customers' losses in Cuba.

From a business team perspective, 37% of the total claims paid were in the Consumer Goods Team (1996 – 21%) followed by the Information Technologies Team with 14% (1996 – 5%). In 1997, claims totaling \$316,000 were paid in the Financial Institutions Team compared to \$20 million in 1996.

As at December 31, 1997, the Corporation has \$119 million in claims paid and outstanding to 72 countries (1996 – \$100 million to 52 countries), with estimated recoveries of \$28 million (1996 – \$25 million).

ALLOWANCE FOR CLAIMS ON INSURANCE AND GUARANTEES

The total allowance for claims as a percentage of contingent liabilities has remained relatively stable over the last five years.

As at December 31, 1997, the allowance for claims on insurance and guarantees is \$336 million, an increase of \$96 million or 40% over the 1996 allowance of \$240 million. The increase is primarily attributable to the continued growth in the short-term insurance portfolio as well as an increase in the loan guarantee allowance.

During 1997, \$111 million was charged to the income statement for the provision for credit losses relating to claims on insurance and guarantees. Charges to the allowance of \$24 million due to write-downs of the recoverable insurance claims account were offset by an increase of \$9 million due to a foreign exchange fluctuation.

Of the \$24 million in write-downs, the largest concentration was related to claims paid and outstanding on behalf of customers' losses in the United States (\$18 million). All write-downs were in the short-term program.

The Corporation's contingent liability has increased by 134% over the last five years from \$3,725 million in 1992 to \$8,724 million at the end of 1997. The allowance for claims on insurance and guarantees as a percentage of total contingent liabilities has increased from 2.7% to 3.9% over the same time frame. This increase in percentage is largely the result of an increase in the loan guarantee allowance.

TREASURY CREDIT RISK

Treasury credit risk is the credit risk associated with EDC's holdings of interest-bearing deposits, marketable securities, investments and derivative financial instruments. For interest-bearing deposits, marketable securities and investments, the potential exposure is represented by the carrying value of the financial instrument. The potential loss on derivative financial instruments is the replacement cost of contracts that have a positive fair value. The Corporation's risk management guidelines limit counterparty credit exposures by credit rating and term. Credit exposures are evaluated on an ongoing basis. Changes in counterparty creditworthiness and market movements may cause limits to be exceeded, and in such cases management will determine appropriate action. EDC is currently within the limits established by its risk management guidelines.

The following table provides a breakdown, by credit rating, of EDC's Treasury credit risk exposure:

(\$ in millions)					
Credit rating*	Remaining term to maturity				Total
	Under 1 year	1 to 3 years	3 to 5 years	Over 5 years	
Aaa	141	125	186	12	464
Aa1	149	32	28	116	325
Aa2	572	126	30	204	932
Aa3	132	29	42	26	229
A1	120	63	15	-	198
A2	75	10	-	-	85
Total	\$1,189	\$385	\$301	\$358	\$2,233

*Moody's long-term rating.

Market Risk

Market risk is the likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates. EDC manages the market risk of its assets and liabilities on a portfolio basis. The portfolios are fixed rate, floating rate and investments. These portfolios are predominantly in Canadian and U.S. dollars.

The Corporation manages its exposure to market risk (interest rate and foreign exchange) utilizing limits developed in consultation with the Department of Finance and approved by the Audit Committee of the Board of Directors. The Treasury Division meets daily and the Corporation's Finance Committee meets weekly to review and discuss market and credit risks and to analyze borrowing requirements.

These activities and the asset/liability positions are reported quarterly (or more frequently as required) to EDC's Asset/Liability Management Committee, to the Audit Committee of the Board and to the Board of Directors.

Interest Rate Risk

Interest rate risk is the exposure of the Corporation's market value to adverse movements in interest rates. Interest rate risk exists where there is a mismatch between maturities and/or interest rate resets between assets and liabilities. Currently, all portfolios are in compliance with the Corporation's risk management guidelines.

Foreign Exchange Risk

Foreign exchange risk is the exposure of the Corporation's net interest income and market value to adverse movements in foreign exchange rates. Foreign exchange risk exists where there is a mismatch between assets and liabilities in any currency. This risk is measured on a translation basis. Currently, the exposure to foreign exchange risk is within EDC's risk management guidelines.

The likelihood of loss to EDC as a result of possible movements in interest and foreign exchange rates is monitored and controlled. Market risk is aggregated and managed on an integrated basis. Limits exist for interest rate and foreign exchange rate shock effects in relation to projected net interest income. Exposures are classified, calculated and limited on a consolidated Canadian dollar equivalent basis, covering EDC's lending, investing, funding and derivative transactions.

EDC will continue to improve analytical techniques, information systems and reporting, to enhance the evaluation and control of risk. The Treasury Risk Management Policy will be reviewed annually to reflect this improvement effort. In 1998, EDC will implement a Performance Management Policy. Performance will be evaluated using benchmarks agreed to by management and the Audit Committee of the Board.

EDC endeavours to match the average term of assets and liabilities on a portfolio basis. The following table provides a breakdown of EDC's gross assets into fixed rate, floating rate and investment portfolios:

<i>(\$ in millions)</i>	Total (CAD equiv.)	%	Canadian dollars	U.S. dollars	Other currencies (CAD equiv.)
Investments	1,813	13	1,127	470	14
Floating rate portfolio	6,910	49	954	3,620	783
Fixed rate portfolio	5,463	38	221	3,616	74

Asset terms are set to meet the needs of external parties. EDC arranges its liabilities to manage the risk profile of the Corporation.

FUNDING

Loans payable increased by 23% in 1997 to \$9.6 billion. This increase was in response to the growth of EDC's loan asset portfolio and was accomplished by the issuance of structured floating rate debt.

In accordance with the *Export Development Act* and the *Financial Administration Act*, EDC funds its capital requirements in domestic and international capital markets through issuance of bonds, debentures, notes and other evidence of indebtedness. EDC attempts to minimize the cost of borrowing while prudently

managing market risks (interest rate and foreign exchange) and Treasury credit risks.

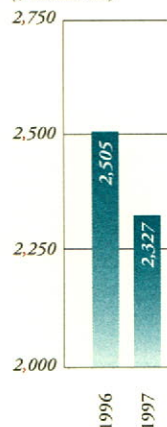
EDC, as an agent of Her Majesty in the right of Canada, carries the full faith and credit of the Government of Canada. Securities issued by the Corporation are assigned a zero risk weighting in accordance with capital adequacy guidelines established by North American bank regulatory agencies.

EDC has the following credit ratings:

	Domestic		Foreign currency	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aa1	P1	Aa2	P1
Standard & Poors	AAA	A1+	AA+	A1+
Japan Credit Rating Agency	AAA	-	AAA	-

Fixed Rate Payables

(\$ in millions)



Fixed Rate Liabilities

EDC's fixed rate liability portfolio decreased by \$178 million from the prior year. This decrease was caused by fixed rate bonds that matured during 1997. The Corporation did not issue any net fixed rate bonds in 1997. All fixed rate borrowings for the year were swapped into floating rate debt.

During 1997, the interest expense related to fixed rate issues amounted to \$202 million (1996 – \$174 million).

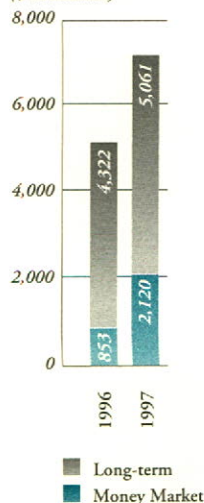
Floating Rate Liabilities

EDC's floating rate debt includes both short-term (money market) and long-term debt.

Money market liabilities primarily consist of commercial paper, which the Corporation raises in both North American and European markets. The European commercial paper program launched in 1997 replaced EDC's registered claim borrowing program. The short-term floating rate portfolio increased by 149% from the previous year to \$2,120 million. This increase resulted from growth in loan asset balances.

Floating Rate Payables

(\$ in millions)



The long-term floating rate debt consists of liabilities whose rate resets on a regular, recurring basis. A large proportion of the long-term floating rate issues are synthetically created from fixed rate debt issues by using interest and/or currency swaps. During 1997, EDC issued \$1,730 million in new, long-term floating debt, most of which was structured product. EDC bought back \$553 million of long-term floating rate debt in 1997. These buybacks were undertaken to support EDC's investor relations, and the amounts bought back were refinanced with new issues. Gains or losses on buybacks are generally being amortized over the life of the refinancing. Overall, the long-term floating rate liabilities increased 17% from the previous year to \$5,061 million. Similar to the short-term liabilities, the increase resulted from larger loans receivable balances.

The expense related to money market borrowings was \$53 million (1996 – \$52 million), and the long-term floating rate borrowings had an expense of \$226 million (1996 – \$211 million).

Capitalization and Allowances

The gross assets of the Corporation are \$14.6 billion (1996 – \$12.2 billion), which are supported by capitalization and allowances of \$3.5 billion (1996 – \$3.1 billion). At this level of capitalization, 24% of assets do not require external debt financing (1996 – 25%). Non-accrued capitalized interest is not included in this calculation due to the uncertainty of the timing of these cashflows.

The following table shows the capitalization of EDC over the last five years:

(\$ in millions)	1997	1996	1995	1994	1993
Shareholder's equity:					
Capital	983	983	851	813	788
Retained earnings	562	434	322	278	107
Sub-total	1,545	1,417	1,173	1,091	895
Allowances	1,984	1,683	1,457	1,097	875
Total capitalization and allowances	3,529	3,100	2,630	2,188	1,770
Non-accrued capitalized interest (NACI)	1,082	998	927	929	843
Total capitalization and allowances & NACI	\$4,611	\$4,098	\$3,557	\$3,117	\$2,613

DERIVATIVES

EDC utilizes a variety of derivatives to manage costs, returns and levels of financial risk associated with its funding, investment and risk management activities. EDC's use of derivatives may include, but is not restricted to, currency and interest rate swaps, foreign exchange contracts, equity index swaps, forward rate agreements, futures and options.

EDC does not engage in the use of derivatives whose value and financial risks cannot be measured, monitored and managed on a timely basis. The Treasury Risk Management group formally reviews EDC derivative financial instrument deals at the time of inception, and on an ongoing basis, to provide an independent verification on the valuation of deal structures and of associated financial risks.

The use of any new derivative products is reviewed and reported separately by the Risk Management Department to the Senior Vice-President and Treasurer and the Executive Vice-President and Chief Financial Officer. Financial risks associated with derivatives are controlled and reported as specified in Treasury Risk Management Policies. EDC's use of derivatives is typically linked to the following activities:

Funding

Derivatives are used to achieve reduced fixed rate or sub-LIBOR floating rate funding costs. An example would be issuing an EDC bond in a foreign currency, on a fixed interest rate basis, and entering into a currency and interest rate swap with a creditworthy counterparty to achieve low-cost floating rate, U.S. dollar denominated debt, thereby replacing the foreign currency denominated payment obligations with U.S. dollar denominated obligations. The combination of the bond issue and swap would deliver a more favourable cost of funding than could be achieved using a straight U.S. dollar floating rate bond issue.

Investing

Derivatives are used to maximize yields on investments. For example, rather than investing directly in a three-month U.S. dollar treasury bill, EDC may obtain a higher yield by investing in a Japanese yen swapped deposit, where U.S. dollars are converted to yen and invested in a three-month yen deposit. At maturity, the maturing term deposit plus interest is swapped back into U.S. dollars. This structure uses a forward foreign exchange contract to enhance the investment yield.

Risk Management

Derivatives are used to hedge risks by diversifying concentrated exposures. For example, EDC might balance the proportion of fixed to floating rate assets in its investment book, using interest rate swaps, in order to diversify interest rate risk.

Liquidity Risk

Liquidity risk is the risk that funds will not be available to meet the Corporation's obligations.

EDC has guidelines to ensure that sufficient liquidity is retained to meet operating requirements and to maintain stability in short-term borrowing programs. Currently, EDC is in compliance with these guidelines. In the course of its normal activities, EDC's commercial paper programs provide the Corporation with the necessary liquidity to meet its cash requirements on a daily basis. EDC also holds cash and marketable securities to ensure that sufficient liquidity is available, if required, to meet forecasted cash requirements. Finally, EDC is establishing confirmed credit lines with highly rated financial institutions to be used as a secondary source of liquidity. These credit lines will be in place early in 1998.

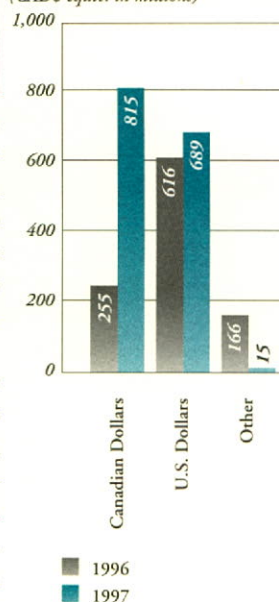
CASH AND MARKETABLE SECURITIES

Cash and marketable securities increased by 46% in 1997, to \$1.5 billion, as a result of higher liquidity requirements to support EDC's increased business.

The Corporation holds marketable securities and cash in the form of interest bearing deposits. It is the policy of EDC that corporate cash holdings be invested in a prudent manner. The investment of corporate cash holdings is governed by the *Export Development Act*, the *Financial Administration Act* and the Corporation's Investment Authorities approved by the Minister of Finance.

The Corporation maintains cash and marketable securities in a number of currencies to ensure that it is able to meet its obligations as they arise. As at the end of 1997, cash and marketable securities totaled \$1,519 million (1996 – \$1,037 million), representing an increase of \$482 million from the previous year. The implementation of a new investment strategy that was focused on increasing the Canadian dollar portfolio contributed significantly to this increase. The U.S. dollar portfolio also increased from \$616 million in 1996 to \$689 million in 1997, while holdings in other currencies decreased by \$151 million to \$15 million (1996 – \$166 million). Other currencies in which investments and/or cash deposits are held are Deutsche marks, British pounds, Japanese yen, Australian dollars, Dutch guilders, French francs, Swiss francs and European currency units.

Cash and Marketable Securities
(CAD\$ equiv. in millions)



Operational Risk

Operational risk is the potential risk of loss from human error, internal control weaknesses and systems deficiencies. EDC has policies and procedures in place that establish clear segregation of responsibilities and timely internal reporting to management.

YEAR 2000

The historical practice in the computer industry has been to code date references with only two digits. The result is often referred to as a "time bomb" set to go off at the turn of the century. When the century rollover occurs, dates will contain the two-digit year "00". Many computer programs, all kinds of computer hardware and anything that operates using a computer "micro-chip" could potentially fail or produce incorrect results when trying to interpret this value.

EDC is well aware of the potential critical effects surrounding Year 2000 non-compliance, and in 1996, the company began a corporate-wide initiative to survey all of its computer systems, processes and other technology for compliance. EDC is striving to ensure that the Year 2000 problem does not affect the company's business, so that EDC in turn does not jeopardize service to customers. The target date for becoming compliant is the end of 1998. This would allow for one full year to continue to test and verify that all corporate systems will operate reliably. Activities supporting this project are under way throughout the Corporation, and EDC is confident that its compliance program will permit an orderly transition through the year 2000.

FINANCIAL REPORTING RESPONSIBILITY

The Consolidated Financial Statements contained in this Annual Report have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied. The integrity and objectivity of the data in these Consolidated Financial Statements are management's responsibility. The Consolidated Financial Statements include some amounts, such as the allowances for losses on loans and claims, that are necessarily based on management's best estimates and judgment. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the Consolidated Financial Statements.

In support of its responsibility, management maintains financial and management control systems and practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded and the operations are carried out effectively. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis.

The Board of Directors of EDC is responsible for all business undertaken by the Corporation. Contracts which, in the opinion of the Board of Directors, involve risks for a term or an amount in excess of that which the Corporation would normally undertake, may be entered into under the authority of the Governor General in Council where the Minister considers them to be in the national interest. The Board of Directors has the predominant role in the management of this program and is solely responsible for its administration. Funds required for such contracts are paid to the Corporation by Canada, and funds recovered are remitted to Canada, net of amounts withheld to cover related administrative expenses. Canada Account transactions are shown in Note 19 to the Corporation's Consolidated Financial Statements.

The Auditor General of Canada conducts an independent audit, in accordance with generally accepted auditing standards, and expresses his opinion on the Consolidated Financial Statements. His report is presented on the following page.



A. Ian Gillespie
*President and
Chief Executive Officer*



John Gagan
*Vice-President and
Corporate Controller*



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

To the Minister for International Trade

I have audited the consolidated balance sheet of Export Development Corporation as at December 31, 1997 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Export Development Act* and regulations and the by-laws of the Corporation and its wholly owned subsidiary.

L. Denis Desautels, FCA*Auditor General of Canada*

Ottawa, Canada
February 4, 1998

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

as at December 31, 1997

(\$ in millions)	1997	1996
Assets		
CASH AND INVESTMENTS		
Cash and marketable securities (note 3)	1,519	1,037
Investments (note 4)	408	407
Accrued interest	21	15
	1,948	1,459
LOANS RECEIVABLE		
Net loans receivable (notes 5, 6 and 7)	9,663	8,083
Accrued interest and fees	168	139
	9,831	8,222
OTHER		
Recoverable insurance claims (note 10)	28	25
Other assets	45	35
	73	60
Total Assets	\$11,852	\$9,741
Liabilities and Shareholder's Equity		
LOANS PAYABLE (notes 12 and 13)		
Loans payable	9,556	7,735
Accrued interest	103	94
	9,659	7,829
OTHER LIABILITIES AND DEFERRED REVENUES		
Accounts payable	84	80
Deferred insurance premiums	17	11
Allowance for claims on insurance and guarantees (note 10)	336	240
Deferred loan revenues and other credits	211	164
	648	495
<i>Loan Commitments and Insurance and Guarantees (notes 8 and 9)</i>		
SHAREHOLDER'S EQUITY		
Share capital (note 14)	983	983
Retained earnings	562	434
	1,545	1,417
Total Liabilities and Shareholder's Equity	\$11,852	\$9,741

See accompanying notes.

Approved by the Board of Directors


W.R.C. Blundell
 Director


A. Ian Gillespie
 Director



CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended December 31, 1997

(\$ in millions)	1997	1996
INTEREST INCOME		
Loan interest earned	752	671
Investment interest earned	92	99
	844	770
Interest expense	481	437
Net interest income	363	333
PREMIUM AND FEE INCOME		
Insurance premiums and guarantee fees	99	92
Other fees	30	17
	129	109
PROVISION FOR CREDIT LOSSES (note 11)	295	270
Income after provision for credit losses	197	172
ADMINISTRATIVE EXPENSES	69	60
NET INCOME	128	112
RETAINED EARNINGS		
Beginning of year	434	322
End of year	\$562	\$434

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION*for the year ended December 31, 1997*

<i>(\$ in millions)</i>	1997	1996
OPERATING ACTIVITIES		
Net income	128	112
Items not affecting cash		
Provision for credit losses	295	270
Net (increase)/decrease in accrued interest and fees	(25)	(38)
Net increase/(decrease) in deferred revenue	44	(10)
Other changes	(25)	(49)
Cash provided	417	285
LENDING ACTIVITIES		
Loan disbursements	(3,321)	(2,463)
Loan repayments	1,860	1,980
Items not affecting cash		
Interest rescheduled	(55)	(33)
Cash used	(1,516)	(516)
FINANCING ACTIVITIES		
Issue of long-term loans payable	1,730	1,775
Repayment of long-term loans payable	(1,409)	(1,530)
Increase/(decrease) in short-term loans payable	1,261	(161)
Issue of share capital	-	132
Increase in investments	(1)	(168)
Cash provided	1,581	48
Increase/(decrease) in cash and marketable securities	482	(183)
CASH AND MARKETABLE SECURITIES		
Beginning of year	1,037	1,220
End of year	\$1,519	\$1,037

See accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Mandate and Activities

Export Development Corporation ("the Corporation" or "EDC") was established on October 1, 1969 by the *Export Development Act* ("the Act"), a statute of the Parliament of Canada which was amended on June 10, 1993. The Corporation was created as an agent of Her Majesty in right of Canada for the purposes of supporting and developing, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. This Act as amended gives EDC the flexibility to consider a wider range of options to meet the needs of Canadian exporters and those investing in foreign markets. The Corporation is accountable for its affairs to Parliament through the Minister for International Trade.

EDC incorporated Exinvest Inc. ("the Subsidiary") under the *Canada Business Corporations Act* in 1995. The activities of the Subsidiary have been consolidated with those of the Corporation.

The earnings of the Corporation and its Subsidiary are not subject to the requirements of the *Income Tax Act*.

The Corporation is subject to a limit imposed by the Act on its contingent liability programs. The Act specifies that the Corporation's contingent liabilities in respect of the principal amounts owing under all outstanding arrangements shall at no time exceed \$15 billion, an amount equal to 10 times the authorized capital of the Corporation. As at December 31, 1997, the position against this limit is \$11.5 billion (1996 – \$8.9 billion).

As an agent of Her Majesty in right of Canada, debt instruments issued by the Corporation carry the full faith and credit of Canada. The Act allows the Corporation to borrow up to a maximum of 15 times the aggregate of its current paid-in capital and the retained earnings determined in accordance with the previous year's audited Financial Statements. This limit for borrowing as at December 31, 1997 is \$21.3 billion (1996 – \$19.6 billion), against which borrowings amounted to \$9.6 billion (1996 – \$7.7 billion).

*2. Summary of Significant Accounting Policies***Cash and Marketable Securities**

Securities which are being held to maturity are carried at cost. Gains and losses on these securities are recognized in income only when they are realized and the asset is removed from the balance sheet. Available for sale securities are carried at market value. The gains and losses arising from securities carried at market value are included in investment interest earned.

Net Loans Receivable

Net loans receivable are stated net of non-accrued capitalized interest and the allowance for losses on loans. Non-accrued capitalized interest represents contractual interest capitalized according to rescheduling agreements with sovereign borrowers during which time the loans are classified as impaired.

Loan interest is recorded on an accrual basis until such time as management determines that a loan should be classified as impaired. Loans are classified as impaired when circumstances indicate that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected on a timely basis in accordance with the terms of the loan agreement. Amounts received for impaired loans are credited to the book value of the loans. No portion of cash received on a loan subsequent to its classification as impaired is recorded as interest earned until such time as any specific allowance has been reversed, and it is determined that the loan principal is fully collectible in accordance with the contractual terms of the loan. An impaired loan is restored to a performing basis after a pattern of regular payments has been established, normally three years. When the Corporation restores the impaired loan to an accrual basis, previously non-accrued capitalized interest is recognized over the remaining term of the loan.

When sovereign borrowers experience financial difficulties and are unable to meet their debt obligations, sovereign creditors, including the Government of Canada, agree at an international forum, the Paris Club, to formally reschedule the borrower's debt obligations. From time to time and on a case-by-case basis, the most heavily indebted sovereign borrowers are granted debt reduction or debt service relief. The granting of debt reduction or relief is contingent upon the sovereign borrower's ability to implement and maintain economic programs outlined by the International Monetary Fund. To date, the Government of Canada has fully compensated the Corporation for all amounts forgiven at the Paris Club, and these payments for impaired loans or loans previously classified as impaired are credited to the book value of the loans. Rescheduled loans are considered performing unless they meet the criteria of impaired loans.

Loan fees, mainly exposure fees and administration fees, are normally amortized over the disbursement and repayment term of the related loan.

Measurement Uncertainty

To prepare the Corporation's financial statements in accordance with generally accepted accounting principles, it is necessary to use accounting estimates. The most significant of these estimates are the allowance for losses on loans (Note 7) and the allowance for claims on insurance and guarantees (Note 10). Management determines the allowances using various assumptions, based on its assessment of the impact of recent events and changes in economic conditions and trends. These estimates are reviewed in detail annually. However, actual loan losses and liabilities for contingencies incurred may vary significantly from management's estimates. The uncertainty in the estimation process arises, in part, from the use of historical data to identify and quantify credit deterioration. While historical data may be the most reliable basis available to calculate these amounts, economic events may occur that render previous assumptions invalid and cause a material change to the accounting estimates.

The general allowance for loan losses is estimated using historical loan default and recovery rates. For specifically identified impaired loans, recoverable amounts are calculated using the best estimates of the timing and amount of future cash flows for each borrower.

The allowance for claims on insurance and guarantees contains two components: the portion arising from the insurance program and the portion relating to loan guarantees. The allowance pertaining to the insurance program is calculated using estimated future net claims less future net premiums, based on assumptions consistent with the Corporation's past experience. Additional amounts are provided for possible adverse deviation from best estimate assumptions. While these amounts vary with the degree of uncertainty inherent in each program and with the homogeneity of policies (size and term) within each portfolio, the valuation process conforms to the Recommendations of the Canadian Institute of Actuaries. The allowance pertaining to loan guarantees uses the same assumptions as the general allowance for loan losses.

In 1997, EDC enhanced its methodology for estimating the allowance for losses on loans. See Note 7 for further discussion.

Allowance for Losses on Loans

The allowance for losses on loans is based on a review of collectibility of all loans to commercial and sovereign borrowers and represents management's best estimate of probable credit losses on loans receivable.

Specific allowances are established on an individual loan basis to recognize credit losses. When a loan is considered impaired, the carrying value of the loan is reduced to its estimated realizable value by discounting expected cash flows at the rates inherent in the loan. The amount of initial impairment and any subsequent changes due to the re-evaluation of estimated future cash flows are recorded through the provision for credit losses as an adjustment to the specific allowance for impaired loans.



General allowances include all accumulated provisions for losses on loans which are prudential in nature and for which impairment has not been specifically identified. In establishing the general component of the allowance, management models its portfolio into credit risk pools and applies information from external credit-rating agencies, augmented by corporate experience, on historical default rates and loss percentages to determine the allowance for loan losses. These allowances are established to absorb credit losses in the portfolio where, in management's opinion, there is evidence of impairment given the current economic conditions and trends surrounding particular industries, geographic regions or other loan concentrations in the portfolio.

Recoverable Insurance Claims

Recoverable insurance claims payments are recorded at estimated recoverable values. Subsequent net gains or losses on recovery are credited or charged to the allowance for claims on insurance and guarantees when recoverable values are re-estimated.

Allowance for Claims on Insurance and Guarantees

The allowance for claims on insurance is based on an actuarial review of net loss experience and potential net losses and represents management's best estimate of the net present value of the liability under existing policies. The allowance for loan guarantees is determined on the same basis as the general allowance for loans.

Insurance Premiums

For short-term insurance policies, premiums are taken into income at the commencement of coverage. Premiums on other export insurance policies are taken into income using methods which generally reflect the exposures over the terms of the policies. Reinsurance premiums and recoveries on losses incurred are recorded as reductions of the respective income and balance sheet accounts. Unearned premiums on insurance transferred to reinsurers and estimates of amounts recoverable from reinsurers on unpaid claims are deducted from deferred premiums and recoverable claims respectively.

Derivative Financial Instruments

The Corporation uses a variety of derivative financial instruments to manage operating exposures such as foreign exchange fluctuations and changes in interest rates. These contracts are carried on a cost basis. Premiums paid or discounts received on these instruments are deferred and amortized over the life of the contract. Net receipts or payments are recognized in income on an accrual basis in the same period and the same financial statement category to which the contract is related.

Translation of Foreign Currency

All assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of the year. Income and expenses are translated at monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are included with interest expense.

Interest Expense

Interest expense includes expenses of commercial paper, registered claims, bonds, derivative financial instruments, the amortization of debt discount and issue expenses, and foreign exchange gains and losses. Gains or losses incurred when the Corporation repurchases its bonds, and unwinds any swaps related to those bonds, are either taken into income at the time of the transaction, or deferred and amortized over the life of a replacement debt issue, should one be issued.

3. Cash and Marketable Securities

The Corporation maintains liquidity sufficient to meet general operating requirements, to maintain stability in the short-term borrowing program and to provide flexibility in achieving corporate objectives. In order to meet these varied needs, marketable securities are held in either the investment portfolio or available for sale portfolio.

Securities in the investment portfolio are held for liquidity and for the longer term. Available for sale securities are intended to be held for a short period of time. Swap contracts are agreements between two counterparties to exchange interest payments over an agreed-upon period, each calculated using a different interest rate index and denominated in either the same currency or a different currency.

(\$ in millions)	Remaining Term to Maturity			1997	1996
	Under 1 year	1 to 3 years	Over 3 years	Total	Total
Investment Portfolio					
Fixed rate securities	122	182	259	563	258
Swap contracts	(112)	(25)	-	(137)	(192)
Net fixed	10	157	259	426	66
Yield to maturity %	5.27	5.95	6.13	6.04	6.88
Floating rate securities	565	70	10	645	669
Swap contracts	123	27	-	150	192
Net floating	688	97	10	795	861
Yield to reset %				5.23	4.84
Total Investment Portfolio	698	254	269	1,221	927
Available for Sale Portfolio					
Fixed rate securities	-	-	-	-	17
Floating rate securities	298	-	-	298	93
Total Available for Sale Portfolio	298	-	-	298	110
Spot yield %				4.43	4.64
Value at purchase	297	-	-	297	115
Total Cash and Marketable Securities	\$996	\$254	\$269	\$1,519	\$1,037

Credit exposure arises from the possibility that a counterparty may default on its obligations. Credit exposure related to securities held in the investment portfolio and the available for sale portfolio is represented by their carrying value. For swap contracts, it is a fraction of the notional amount of the instruments shown above, and is represented by the replacement cost of those contracts that have a positive fair value (a contract which, if settled currently, would result in a gain). Credit exposure for swap contracts held in the investment portfolio is included as part of Note 16.

4. Investments

Investments comprise \$102 million (1996 – \$99 million) of cash and securities held by EDC's subsidiary Exinvest Inc. and notes issued by three Crown corporations: Ridley Terminals, Inc., Vancouver Port Corporation and the Royal Canadian Mint, totaling \$306 million (1996 – \$308 million). These Crown corporations are related to EDC as a result of common ownership. EDC intends to hold these notes to maturity. These investments were made in the normal course of business, transacted at fair value, and are recorded at cost.

(\$ in millions)				1997	1996
	Amount	Yield*	Term*	Amount	Amount
Fixed rate investments	306	7.40%	52 months		300
Floating rate investments	102	3.89%	1 month		107
Total	\$408	-	-		\$407

*Refers to yield and term to maturity for fixed rate investments, and yield and term to reset for floating rate investments.

5. Net Loans Receivable

The following table shows the contractual maturity along with related contractual effective yields for gross loans receivable. The yields are computed on a weighted average basis by amount and term. Floating rate yields are expressed as spreads over base rates which consist mainly of LIBOR for U.S. dollars and Prime for Canadian dollars.

(\$ in millions)		1997					1996				
		Yield to				Total	Yield to				Total
		Fixed	maturity	Floating	Spread		Fixed	maturity	Floating	Spread	
		\$	%	\$	%	\$	\$	%	\$	%	\$
Performing:											
Overdue		1	10.45	7	0.94	8	6	8.96	1	1.24	7
1997		-	-	-	-	-	605	8.83	775	1.14	1,380
1998		681	9.03	1,046	1.87	1,727	548	9.17	506	1.67	1,054
1999		629	9.00	614	1.83	1,243	468	9.27	497	1.68	965
2000		523	9.01	618	1.89	1,141	418	9.21	393	1.77	811
2001		656	9.05	551	1.81	1,207	545	9.23	381	1.69	926
2002		508	8.78	452	1.73	960	370	9.09	276	1.47	646
2003-2007		1,438	8.39	1,422	1.30	2,860	1,038	8.62	813	0.61	1,851
2008 and beyond		844	8.46	598	0.71	1,442	477	8.99	468	0.46	945
Performing		5,280	8.56	5,308	1.58	10,588	4,475	8.92	4,110	1.24	8,585
Impaired (Note 6)		183		1,602		1,785	257	-	1,662	-	1,919
Gross loans											
receivable		\$5,463		\$6,910		\$12,373	\$4,732	-	\$5,772	-	\$10,504
Less: Non-accrued											
capitalized interest on											
Impaired loans (Note 6)						831					774
Performing loans*						251					224
Loans receivable						11,291					9,506
Less: Allowance for losses on loans (Note 7)						1,628					1,423
Net Loans Receivable						\$ 9,663					\$ 8,083

*Represents the unamortized balance that accrued while the loan was impaired.

At December 31, 1997, the floating rate performing gross loans receivable are yielding 7.26% (1996 – 6.52%) with an average term to reset of 99 days (1996 – 88 days).

The breakdown of the Corporation's performing gross loans receivable between sovereign and commercial is as follows:

(\$ in millions)		1997					1996				
		Yield to				Total	Yield to				Total
		Fixed	maturity	Floating	Spread		Fixed	maturity	Floating	Spread	
		\$	%	\$	%	\$	\$	%	\$	%	\$
Sovereign		2,970	8.70	2,347	1.12	5,317	2,785	8.85	2,148	0.93	4,933
Commercial		2,310	8.45	2,961	1.92	5,271	1,690	8.99	1,962	1.63	3,652
Total		\$5,280	8.56	\$5,308	1.58	\$10,588	\$4,475	8.92	\$4,110	1.24	\$8,585

6. Impaired Loans Receivable

The Corporation has \$1,785 million impaired gross loans receivable (1996 – \$1,919 million) of which \$1,682 million is sovereign (1996 – \$1,787 million) and \$103 million is commercial (1996 – \$132 million). The following reflects the movement in the impaired loans portfolio during the year:

(\$ in millions)	1997	1996
Balance at beginning of year	1,919	1,895
Loans classified as impaired	-	29
Loans reinstated to performing	(142)	-
Sale of impaired assets	(31)	-
Capitalized interest	74	78
Principal repayments	(50)	(55)
Compensation from the Government of Canada for debt relief	(17)	(26)
Foreign exchange	32	(2)
Balance at end of year	\$1,785	\$1,919

The largest concentrations of gross loans receivable for impaired loans are listed in the following table. Non-accrued interest represents contractually earned interest that has not been capitalized through rescheduling agreements.

(\$ in millions)	1997			1996		
	Gross loans receivable	Non-accrued capitalized interest*	Non-accrued interest	Gross loans receivable	Non-accrued capitalized interest*	Non-accrued interest
Sovereign						
Peru	632	424	6	571	340	39
Cameroon	386	151	42	400	150	18
Côte d'Ivoire	262	124	15	252	111	5
Russia	117	41	2	112	31	4
Congo	53	38	2	55	35	2
Other	232	53	136	397	107	121
Sub-total	1,682	831	203	1,787	774	189
Commercial	103	-	87	132	-	71
Total Impaired	\$1,785	\$831	\$290	\$1,919	\$774	\$260

*Non-accrued capitalized interest is included in gross loans receivable.

During 1997, payments from borrowers for impaired loans were \$86 million (1996 – \$89 million). These amounts were applied to the book value of the impaired loans and did not affect interest earned.

7. Allowance for Losses on Loans

The composition of the allowance for losses on loans is as follows:

(\$ in millions)	1997			1996		
	Sovereign	Commercial	Total	Sovereign	Commercial	Total
Specific allowance for impaired loans	390	98	488	534	127	661
General allowance	540	600	1,140	456	306	762
Total	\$930	\$698	\$1,628	\$990	\$433	\$1,423

The specific allowance for impaired loans reduces the carrying value of impaired loans to the net present value of expected cash flows. Estimated cash flows are based on historical payments from sovereign borrowers, demonstrating to a large extent each borrower's willingness and ability to meet future payments. The historical payments are then modified when necessary to derive the estimated future cash flows which are then discounted using rates inherent in agreements.

During the year, the Corporation enhanced its methodology for estimating the general allowance for loan losses. This enhancement is part of the continuing process to more accurately reflect the current economic conditions and their impact on credit migration. The methodology incorporates the historical default rates of corporate bond issuers as determined by external credit-rating agencies, and the Corporation's own severity of loss experience. The risk concentration component of the allowance for loan losses has been reclassified as a result of the improved methodology. These enhancements resulted in an increase of \$52 million in the allowance for loan losses as at December 31, 1997.

The Corporation has significant geographic concentrations in below investment grade and speculative grade countries, as determined by external credit-rating agencies. Seven such countries represent \$3,003 million or 28% of the Corporation's performing loans receivable. In addition, the Corporation has a single counterparty loan receivable of \$721 million with a ground transportation entity in the United States.

During the year, changes to the allowance for losses on loans were as follows:

(\$ in millions)	1997	1996
Balance at beginning of year	1,423	1,233
Provision for losses on loans	184	190
Interest reversal for impaired loans		
Write-off	(18)	(1)
Foreign exchange	39	1
Balance at end of year	\$1,628	\$1,423

8. Loan Commitments

The Corporation has undisbursed commitments of \$6,482 million (1996 – \$2,863 million). The Corporation expects to fund these undisbursed commitments near the time of their disbursement. Over the next two years, the Corporation expects to disburse 72% of the remaining undisbursed balances. The Corporation generally attempts to match debt maturities and currencies with those of its loan assets on a portfolio basis. Undisbursed commitments with their locked-in effective yields are outlined in the following table. All yields are computed on a weighted average basis and the spreads over floating interest rates are represented mainly by LIBOR for U.S. dollars. In 1996, the Corporation was committed to disburse \$223 million which had a fixed rate effective yield that was indeterminable and therefore was not included in the table.

	1997				1996			
	Fixed	Spot	Floating	Spread	Fixed	Spot	Floating	Spread
	\$	yield	\$	%	\$	yield	\$	%
Sovereign	2,385	7.98	561	2.44	417	8.41	409	2.49
Commercial	167	8.14	3,369	2.39	75	9.72	1,739	1.14
Total	\$2,552	8.00	\$3,930	2.40	\$492	8.61	\$2,148	1.40

9. Contingent Liabilities

The Corporation has insurance policies in force and guarantees outstanding of \$8,724 million (1996 – \$7,432 million) which mature as follows:

(\$ in millions)	1997	1996
Short-term program	5,700	5,081
Medium-term program		
1997	-	370
1998	546	340
1999	467	295
2000	443	97
2001	379	395
2002	197	62
2003-2007	658	427
2008 and beyond	334	365
Total	\$8,724	\$7,432

The major concentrations by location of ultimate risk are as follows:

1997			1996				
(\$ in millions)	Short-term	Medium-term	Total		Short-term	Medium-term	Total
U.S.	2,317	62	2,379	U.S.	1,580	38	1,618
Canada	975	443	1,418	Canada	612	312	924
U.K.	128	240	368	Brazil	585	19	604
Japan	332	1	333	Iran	390	60	450
Mexico	297	20	317	Mexico	391	14	405
Other	1,651	2,258	3,909	Other	1,523	1,908	3,431
Total	\$5,700	\$3,024	\$8,724	Total	\$5,081	\$2,351	\$7,432

Reinsurance of \$78 million (1996 – \$122 million) has been deducted from the insurance policies in force.

10. Recoverable Insurance Claims and Allowance for Claims on Insurance and Guarantees

During the year, changes to the recoverable insurance claims were as follows:

(\$ in millions)	1997	1996
Balance at beginning of year	25	20
Claims paid	43	60
Claims recovered	(16)	(11)
Re-evaluation of recoverable claims	(24)	(43)
Foreign exchange	-	(1)
Balance at end of year	\$28	\$25

Of the \$43 million in claim payments made during 1997, 95% were related to the short-term program. The largest concentrations of claim payments and recoveries were in the following countries:

1997			1996		
(\$ in millions)	Claims paid	Claims recovered		Claims paid	Claims recovered
U.S.	25	5	Cuba	20	3
Canada	7	3	U.S.	16	3
Mexico	3	1	Canada	5	1
France	2	1	Brazil	4	-
China	1	-	Spain	4	-
Other	5	6	Other	11	4
Total	\$43	\$16	Total	\$60	\$11

During the year, changes to the allowance for claims on insurance and guarantees were as follows:

(\$ in millions)	1997	1996
Balance at beginning of year	240	204
Provision for claims on insurance	59	68
Provision for loan guarantees	52	12
Re-evaluation of recoverable claims	(24)	(43)
Foreign exchange	9	(1)
Balance at end of year	\$336	\$240

11. Provision for Credit Losses

The composition of the provision for credit losses is as follows:

(\$ in millions)	1997	1996
Provision for losses on loans	184	190
Provision for claims on insurance	59	68
Provision for loan guarantees	52	12
Provision for Credit Losses	\$295	\$270

12. Loans Payable

The Corporation issues debt instruments in world capital markets. Short-term payables represent liabilities of the Corporation that are issued with maturities under one year. Long-term debt instruments are issued by the Corporation in Canadian dollars, U.S. dollars and other currencies. The Corporation utilizes currency swaps to convert foreign denominated fixed rate notes primarily to U.S. dollars. Interest rate swaps are principally utilized to convert fixed rate instruments to floating rates primarily related to LIBOR. Derivative contracts and structured notes are used to minimize the cost of capital and are also used for asset/liability management purposes.

Loans payable are comprised as follows:

(\$ in millions)	1997		1996	
	Loans payable	Interest expense	Loans payable	Interest expense
Short-term payables	2,120	53	853	52
Long-term payables				
- due within current year	2,005		724	
- over one year	5,383	428	6,103	385
Sub-total	9,508	481	7,680	437
Plus: unamortized discounts and premiums	14		11	
deferrals	34		44	
Total Loans Payable	\$9,556		\$7,735	

Discounts and premiums are related to the issue of long-term debt and swaps. Deferrals include gains and losses incurred upon debt repurchases and swap unwinds.

Accrued interest reflects the corporate cash flow obligation. It can be broken down into its component parts as follows:

(\$ in millions)	1997	1996
Short-term	13	4
Long-term		
-Debt issued	313	229
-Swap contracts	(223)	(139)
Total Accrued Interest	\$103	\$ 94

The accrued interest for the above swap contracts is presented on a net basis.

EDC has entered into a number of structured notes as part of its funding program. Structured notes are hybrid securities that combine fixed income products with derivative components.

Structured notes outstanding, included in loans payable, are as follows:

(\$ in millions)	1997	1996
Equity index linked	502	467
Dual currency	923	1,034
Step-up	300	209
Callable/extendible	166	78
Other	171	163
Total	\$2,062	\$1,951

The Corporation has executed swap contracts to remove market risk on these structured borrowings. These contracts ensure that EDC will receive proceeds from the swap to meet the requirements of settling and servicing the debt obligation. The Corporation has synthetically created floating rate debt. In swapping out of the underlying bond issue, the potential market risk has been converted to credit risk. Credit risk is managed by dealing with counterparties evaluated as creditworthy, through management limits to counterparties and other credit mitigation techniques. Credit exposure on derivative financial instruments is further discussed in Note 16.

13. Loans Payable Maturities

Loans payable and related notional swap amounts mature as follows:

(\$ in millions)				1997	1996
Year of maturity	Issues	Swap contracts	Net	Yield* (%)	Net
Fixed Rate Issues					
1997	-	-	-	-	270
1998	1,928	(1,217)	711	6.88	687
1999	1,119	(333)	786	6.99	753
2000	1,319	(1,033)	286	8.74	273
2001	530	(530)	-	-	-
2002	720	(577)	143	7.81	137
2003 to 2007	988	(841)	147	8.75	141
2008 and beyond	314	(60)	254	8.31	244
Sub-total	6,918	(4,591)	2,327	8.29	2,505
Floating Rate Issues					
1997	-	-	-		1,307
1998	2,120	1,294	3,414		1,159
1999	78	396	474		632
2000	8	1,027	1,035		520
2001	71	518	589		345
2002	-	584	584		441
2003 to 2007	164	860	1,024		771
2008 and beyond	-	61	61		-
Sub-total	2,441	4,740	7,181	5.66	5,175
Total	\$9,359	\$149	\$9,508		\$7,680

*Refers to yield to maturity for fixed rate issues, and yield to reset for floating rate issues.

Credit exposure and other details on swap contracts are included as part of Note 16.

14. Share Capital

The authorized share capital is \$1.5 billion consisting of 15 million shares with a par value of \$100 each. The number of shares issued and fully paid is 9.8 million (1996 – 9.8 million). No shares were issued in 1997 (1996 – 1.3 million).

15. Foreign Currency Balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. In addition, the Corporation has derivative financial instruments denominated in various currencies. The purpose of these derivative financial instruments is to minimize the cost of capital and optimize yields for the Corporation, while sustaining prudent levels of risk.

The following chart shows where the Corporation has created synthetic debt and asset positions through such instruments and the resulting net foreign currency exposure (expressed in Canadian equivalent dollars).

(\$ in millions)							1997			1996
	Assets			Liabilities						
	Gross	D.F.I.*	Net	Gross	D.F.I.*	Net	Exposure	Rate	Exposure	Rate
European Currency Units	29	(6)	23	-	-	-	23	1.5713	15	1.7219
British Pounds	244	-	244	(631)	403	(228)	16	2.3472	9	2.3454
Deutsche Marks	388	-	388	(413)	11	(402)	(14)	0.7944	(53)	0.8900
U.S. Dollars	8,690	406	9,096	(6,390)	(2,716)	(9,106)	(10)	1.4291	163	1.3696
Italian Lira	-	-	-	(163)	162	(1)	(1)	.000808	(2)	0.0009
Swiss Francs	-	-	-	-	-	-	-	0.9777	(1)	1.0232
Australian Dollars	13	(13)	-	(424)	424	-	-	0.9315	-	1.0886
Japanese Yen	5	(4)	1	(292)	291	(1)	-	0.01095	-	0.0118
New Zealand Dollars	-	-	-	(49)	49	-	-	0.8294	-	0.9690

*"Derivative Financial Instruments" includes currency swaps and foreign exchange contracts. See Note 16.

The Corporation incurred a foreign exchange gain of \$7.8 million in 1997 (1996 – gain of \$11 million). This amount is included in interest expense.

16. Derivative Financial Instruments

The Treasury Division actively manages EDC's exposure to market risk through the use of derivative financial instruments held for non-trading purposes. EDC utilizes a variety of these instruments to manage funding costs, investment returns, and to implement asset/liability management strategies in order to minimize market risks in EDC's portfolios. The credit risk in these instruments is managed in accordance with guidelines established in the Treasury Risk Management Department and approved by the Board of Directors.

EDC currently uses, but is not limited to, the following types of instruments:

Interest Rate Swaps – transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Currency Swaps – transactions in which two parties exchange currencies at inception and at maturity, as well as interest flows on the exchanged amounts on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest.

Equity Index Swaps – transactions used to eliminate exposure to movements in an equity index on a debt issue undertaken by the Corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed upon equity index and the other a short-term interest rate index. The principal may either resemble an interest rate swap, in that no exchange of notional amounts occurs, or a currency swap, in which currencies will be exchanged at both inception and maturity.

Foreign Exchange Contracts – commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

Forward Rate Agreements – a short-term contract between two counterparties locking in an interest rate for a specified period, notional amount and interest rate index, starting on a specified date in the future.

Futures – future commitments to purchase or deliver money market instruments on a specified future date at a specified price. The instruments are obligations between the Corporation and the organized exchange upon which the contract is traded.

Options – contracts which grant the right, but not the obligation, to purchase a financial asset at a specified price during a specified period.

In any transaction there are always inherent risks of loss. These risks are classified as (1) credit risks, wherein the counterparty fails to perform an obligation as agreed upon causing the other party to incur a financial loss, or (2) market risks, where an exposure exists as a result of changes in foreign exchange rates and/or interest rates.

The Corporation manages its exposure to credit risk by dealing only with financial institutions having original credit ratings of A for terms of three years and under, and AA for terms greater than three years. Internal policies and procedures establish credit approvals, controls and monitoring. The Corporation does not anticipate any significant non-performance by the counterparties.

Credit impairment in the derivative financial instruments, marketable securities and investments has been estimated not to exceed \$20 million. Accordingly, an allowance for credit risk of \$20 million (1996 – \$20 million) has been established. This amount is included in accounts payable.

Interest rate, currency swap and foreign exchange contracts entered into by the Corporation with contractual or notional principal amounts outstanding as at December 31, 1997 are listed below.

(\$ in millions)					1997	1996
	Remaining Term to Maturity				Total	Total
	Under 1 year	1 to 3 years	3 to 5 years	Over 5 years		
Currency swaps	894	1,284	674	535	3,387	2,684
Interest rate swaps	1,133	433	500	550	2,616	2,514
Foreign exchange contracts	897	-	-	-	897	1,007
Total all swaps	\$2,924	\$1,717	\$1,174	\$1,085	\$6,900	\$6,205
Fair Value of Swaps						
Positive	39	132	44	104	319	304
Negative	100	104	23	17	244	105

Swaps that have a positive fair value are those contracts which, if settled immediately, would result in a gain. Conversely, immediate settlement of a swap with a negative fair value would result in a loss.

17. Fair Value of Financial Instruments

The chart below outlines the book values and the fair values of the Corporation's financial instruments. As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of the Corporation's financial instruments, this uncertainty is multiplied due to the large number of assumptions used, and in the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Thus, the estimates of the value of financial instruments outlined below do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market. It is not the Corporation's intent to settle these items in the market before they mature.

The aggregate of the estimates of the fair value of the financial instruments presented below does not reflect an estimate of the underlying value of the Corporation.

(\$ in millions)		1997		1996	
Balance Sheet Items	Book value	Fair value	Book value	Fair value	
Cash and Marketable Securities:					
Fixed rate securities	579	584	284	288	
Floating rate securities	947	947	768	765	
Investments	414	430	407	423	
Loans Receivable:					
Performing fixed rate	4,939	5,599	4,187	4,483	
Performing floating rate	4,426	5,191	3,551	3,894	
Impaired	466	466	484	484	
Accounts Payable	84	84	80	80	
Loans Payable:					
Fixed rate	2,327	2,371	2,505	2,593	
Floating rate	7,181	7,181	5,269	5,269	

(\$ in millions)		1997		1996	
Off-Balance Sheet Items	Notional	Fair value	Notional	Fair value	
Currency swap contracts	3,387	(34)	2,684	119	
Interest rate swap contracts	2,616	113	2,514	89	
Foreign exchange contracts	897	(4)	1,007	(9)	
Undisbursed Loan Commitments:					
Fixed rate	2,459	213	n/a	n/a	
Floating rate	3,354	30	n/a	n/a	

The fair value of securities with an original maturity of more than one year is based on quoted market prices. For securities with an original maturity of less than one year, the face value has been used as an estimate of fair value.

In order to estimate the fair value of its performing loans receivable, the Corporation separates its loans into risk pools and calculates the net present value of cash flows of principal and interest. The discount rate for the fixed rate portfolio is derived by taking the base rate, U.S. Treasuries for U.S. dollar fixed rate cash flows, for example, to which a spread for credit risk is added for each credit pool. The discount rate for the floating rate portfolio is derived similarly by adding to the base rate a spread for credit risk depending on the grade of credit. The fair value of undisbursed loan commitments is estimated using the same methodology used in the performing loans receivable estimate. The notional values reported are the expected net loans receivable to be disbursed under these commitments. Comparative fair values of undisbursed loan commitments for 1996 have not been provided due to the lack of availability of data.

The estimate of the fair value of fixed rate loans payable and investments uses a discounted cash flow approach with current market rates. Variable rate loans payable and investments repriced frequently and the carrying value approximates the fair value.

The nature of accounts payable is that they have a relatively short duration. Thus, the fair value of accounts payable is estimated to be equal to their book value.

The estimate of the fair value of the foreign exchange contracts is carrying value. Currency swap contracts and interest rate swap contracts use a discounted cash flow approach.

18. Related Party Transactions

The Corporation enters into transactions with other government departments, agencies and Crown corporations in the normal course of business.

During 1997, the Corporation received from the Government of Canada \$17 million (1996 – \$101 million) for principal pursuant to debt relief arrangements. In addition, the Corporation has loans receivable of \$149 million and undisbursed commitments of \$1,351 million, for which it has recourse to the Government of Canada in the event of a loan default.

19. Canada Account Transactions

Pursuant to the Act, the Minister for International Trade, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions. These transactions and legislative authorities which underlie them have come to be known collectively as the “Canada Account”. The Board of Directors is only responsible for the management and the administration of the program. Accounts for the program are maintained separately from the Corporation’s accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada, which are reported upon separately by the Auditor General of Canada. The assets under the Canada Account, mainly loans receivable and accrued interest and fees recorded in accordance with the accounting policies and practices approved by the Government of Canada, amounted to \$2,941 million at December 31, 1997 (1996 – \$2,899 million).

The Act allows the Canada Account to have outstanding loans and commitments to foreign borrowers, and liabilities under contracts of insurance and other agreements up to a maximum of \$13 billion. The position against this limit, determined in accordance with the requirements of the Act, is \$5,565 million (1996 – \$4,165 million). Reinsurance of \$64 million has been deducted from the insurance policies in force.

The Corporation retained \$19 million (1996 – \$17 million) from Canada Account receipts and recoveries to meet expenses and overhead related to Canada Account transactions.

20. Reclassification of Comparative Figures

Certain 1996 comparative figures have been reclassified to conform with the presentation adopted in 1997.

BALANCE SHEETS*as at December 31*

<i>(\$ in millions)</i>	1997	1996	1995	1994	1993
Gross loans receivable	12,373	10,504	9,910	9,901	8,421
Less: non-accrued capitalized interest	1,082	998	927	929	843
Less: allowance for losses on loans*	1,628	1,423	1,233	926	745
Net loans receivable	9,663	8,083	7,750	8,046	6,833
Cash and investments	1,927	1,444	1,459	1,097	2,085
Accrued interest and other assets	262	214	214	203	161
Total assets	\$11,852	\$9,741	\$9,423	\$9,346	\$9,079
Loans payable	9,556	7,735	7,668	7,734	7,672
Accrued interest and other liabilities	415	349	378	363	395
Allowance for claims on insurance and guarantees*	336	240	204	158	117
Total liabilities	10,307	8,324	8,250	8,255	8,184
Share capital	983	983	851	813	788
Retained earnings	562	434	322	278	107
Shareholder's equity	1,545	1,417	1,173	1,091	895
Total liabilities and shareholder's equity	\$11,852	\$9,741	\$9,423	\$9,346	\$9,079

INCOME STATEMENTS*for the year ended December 31*

<i>(\$ in millions)</i>	1997	1996	1995	1994	1993
Loan interest earned*	752	671	799	737	540
Investment interest earned*	92	99	87	59	91
Less: Interest expense*	481	437	485	458	427
Net interest income	363	333	401	338	204
Insurance premiums and guarantee fees*	99	92	76	52	52
Other fees*	30	17	14	17	16
Premium and fee income	129	109	90	69	68
Provision for credit losses	295	270	390	180	181
Income after provision for credit losses	197	172	101	227	91
Administrative expenses	69	60	57	56	50
Net income	\$128	\$112	\$44	\$171	\$41

**Figures prior to 1997 are restated to conform with current presentation.*

CORPORATE ACCOUNT

FINANCIAL ARRANGEMENTS FACILITATED

(\$ in millions)	1997	1996	1995	1994	1993
Export Financing*					
Direct financing**	5,454	3,678	2,142	1,879	3,191
Export Insurance					
Short-term insurance*	20,332	15,756	13,044	8,164	7,009
Medium-term insurance*	2,629	2,464	1,954	1,300	1,437
Guarantees*	221	132	97	288	129
Sub-total	23,182	18,352	15,095	9,752	8,575
Total	\$28,636	\$22,030	\$17,237	\$11,631	\$11,766

FINANCIAL AND OTHER DATA

Export Financing

Number of transactions financed	242	172	140	137	164
Number of loans receivable	810	801	759	838	878
Value of total obligations					
on loans receivable	12,469	10,517	9,920	9,935	8,466
Number of undisbursed loans	216	216	201	197	213
Value of undisbursed loans	6,482	2,863	1,854	2,357	3,238
Value of disbursements to exporters	3,321	2,463	2,172	2,444	1,365
Value of liability on loan guarantees	416	347	257	202	145
Undisbursed amounts on loan guarantees	145	85	88	41	82
Number of current lines of credit					
and protocols	44	50	46	44	34
Amounts available for allocation	1,356	1,570	1,719	1,799	2,697
Loan amounts rescheduled	158	464	442	1,397	83
Loan recoveries	-	-	-	5	-
Loan amounts written off	18	-	-	-	1

Export Insurance

Number of policies issued	3,021	2,591	2,040	1,732	1,819
Number of insurance policies					
and guarantees in force	5,352	4,404	3,446	3,186	3,000
Value of liability on insurance					
and guarantees	10,910	8,508	7,546	7,221	6,607
Value of claims paid	43	60	28	47	48
Value of claims recovered/rescheduled	16	11	8	51	22
Value of claims outstanding at end of year	119	100	57	48	61
Value of claims under					
consideration at end of year	15	14	17	10	2

Average employee strength during year	650	602	557	549	541
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* Figures prior to 1996 are restated to conform with current presentation.

** Excludes the Corporation's participation with recourse of \$1,500 million in a Government of Canada loan, which is included in the direct financing under Canada Account.

CANADA ACCOUNT

FINANCIAL ARRANGEMENTS FACILITATED

(\$ in millions)	1997	1996	1995	1994	1993
Export Financing*					
Direct financing	1,584	131	430	317	901
Export Insurance					
Short-term insurance*	-	6	4	-	58
Medium-term insurance*	283	299	281	168	341
Guarantees*	34	-	-	2	30
Sub-total	317	305	285	170	429
Total	\$1,901	\$436	\$715	\$487	\$1,330

FINANCIAL AND OTHER DATA

Export Financing

Number of transactions financed	7	29	26	7	33
Number of loans receivable	297	291	258	247	239
Value of total obligations					
on loans receivable	2,799	2,753	2,677	2,517	2,213
Number of undisbursed loans	81	96	88	81	94
Value of undisbursed loans	309	373	598	729	642
Value of disbursements to exporters	115	171	434	258	404
Number of current lines of credit					
and protocols	1	1	3	3	2
Amounts available for allocation	20	20	93	120	110
Loan amounts rescheduled	136	9	17	305	62

Export Insurance

Number of policies issued	12	7	10	15	25
Number of insurance policies					
and guarantees in force	23	22	24	33	41
Value of liability on insurance					
and guarantees	241	456	508	482	721
Value of claims paid	6	-	23	20	1
Value of claims recovered	-	4	6	-	-
Value of claims outstanding at end of year	41	34	39	22	2

*Figures prior to 1996 are restated to conform with current presentation.

CORPORATE MANAGEMENT

Leona Assié
Administrative Services

David Bailey
Foreign Investment Insurance

John Balint
Project Finance

Jean Beaulieu
Consumer Goods Team

Gerry Bourbonnais
Claims and Recoveries

Jim Brockbank
Risk Management Office

Jean Cardyn
Contract Insurance and Bonding

Rolfe Cooke*
Short-Term Financial Services

Jim Curley
Credit Surveillance & Analysis

Don Curtis
Industrial Equipment Team

June Domokos
International Markets

Peter Foran
Information Technologies Team

Ruth Fothergill
Ontario Region

John Gagan
Corporate Finance & Control

A. Ian Gillespie*
President and
Chief Executive Officer

Leslie Goodfellow
Financial Institutions Team

Linda Graupner
SME Financial Services Team

Glen Hammond
Western Region

Kevin Harris
Base and Semi-Manufactured
Goods Team

Peter Hepburn
Project Finance

David Herscovitch
Industrial Advisory Services

Catherine Hess
Forestry Team

Glen Hodgson
Government Relations
and Corporate Policy

John Hutchison
SME Services

Peter Jones
Equity Team

Harry Kaunisviita
Corporate Business Systems

Louise Landry
Corporate & Financial Planning

Marc Leduc
Legal Services

Marie MacDougall
Capital Markets

Clare Marshall
Treasury

Mike McLean
International Markets

Keith Milloy
Short-Term Insurance

Mike Neals
Marketing

Sherry Noble
Engineering and
Professional Services Team

Jim Olts
Economics

Katherine Payne*
Human Resources
& Administration

Brian Pearce
Internal Audit and Evaluation

Toby Price
Quebec and Atlantic Region

Gilles Ross*
Legal Services and Secretary

Eric Siegel*
Medium- and Long-Term
Financial Services

Ed Simac
Information Systems

Diana Smallridge-MacLeod
International Relations

*Executive Committee

BOARD OF DIRECTORS

(as at December 31, 1997)

Mr. William R.C. Blundell

◆◆◇○☆+

Corporate Director
Toronto, Ontario**Ms. Dorothy E. Byrne, Q.C. ▲+**Vice President,
Law and Regulatory
Affairs and Corporate Secretary
BC Telecom Inc. and BC Tel
Burnaby, British Columbia**Mr. Rayburn D. Doucett ☆+**President, Crosswaters
Trade Brokers Limited
Jacquet River
Restigouche County,
New Brunswick**Mr. Marcel Dufour +**Corporate Director
St. Lambert, Quebec**Mr. Marcel Dutil ☆+**Chairman of the Board,
President and Chief
Executive Officer
The Canam Manac Group Inc.
Boucherville, Quebec**Mr. A. Ian Gillespie ◇○**President and
Chief Executive Officer
Export Development Corporation
Ottawa, Ontario**Mr. Robert J. Holt +**President and Chief
Executive Officer
Sun-Rype Products Ltd.
Kelowna, British Columbia**Mr. James A. Judd**G-7 Deputy for Canada
and Assistant Deputy Minister
International Trade
and Finance Branch
Department of Finance
Ottawa, Ontario**Mrs. Huguette Labelle**President
Canadian International
Development Agency
Hull, Quebec**Mr. Pierre MacDonald ○☆+**President and
Chief Executive Officer
MacD Consult Inc.
Verdun, Quebec**Mr. Thomas M. Munn ▲◆◆+**President
Munn & Company Limited
Mount Pearl, Newfoundland**Mr. James A. Pattillo *+**President and Chief Executive Officer
XL Foods Ltd.
Calgary, Alberta**Mr. Alexander K. Stuart □●○☆+**Chairman of the Board
The Electrolyser Corporation Ltd.
Toronto, Ontario**Mr. Robert G. Wright ◇☆**Deputy Minister for
International Trade
Ottawa, Ontario

- | | |
|---|--|
| □ | Chairman of the Board of Directors |
| ◆ | Vice-Chairman of the Board of Directors |
| ◇ | Chairman of the Audit Committee |
| ▲ | Member of the Audit Committee |
| ● | Chairman of the Executive Committee |
| ◇ | Member of the Executive Committee |
| ■ | Chairman of the Human Resources Committee |
| ○ | Member of the Human Resources Committee |
| * | Chairman of the Business Development Committee |
| ☆ | Member of the Business Development Committee |
| + | Chairman of the Corporate Governance Committee |
| + | Member of the Corporate Governance Committee |

Corporate Governance Practices

EDC's Board of Directors is actively assuming the leadership and stewardship of the Corporation, working closely with management, and ensuring the effective functioning of the Board.

Of top priority is the leadership of the Corporation, which is evidenced by the comprehensive way in which the Board contributes to the development of the Corporate Plan of the Corporation, and by the sharp focus it places on the Corporation's strategic direction, which includes evaluating its mandate in light of the changing international business environment.

Being responsible for the stewardship of the Corporation, the Board ensures that the principal risks of the business are identified, and information systems and management practices are in place to manage these risks. In this regard, the Board is assisted by an effective network of Committees including: the Executive Committee, which considers urgent matters arising between regular meetings of the Board; the Audit Committee, which assists the Board in discharging its responsibilities in relation to corporate accounting and financial reporting, internal control systems, internal and external audits, and special examinations; the Business Development Committee, which focuses on marketing and communications activities; the Human Resources Committee, which ensures that appropriate resources and succession plans are in place; and the Corporate Governance Committee, which assists the Board in ensuring that it functions efficiently and effectively.

With respect to the functioning of the Board, in 1997 the Corporate Governance Committee oversaw the administration of a survey among EDC directors which was an initial step toward establishing the extent of the Corporation's compliance with Guidelines as set out in the publication *Corporate Governance in Crown Corporations and Other Public Enterprises* by the Department of Finance and Treasury Board of Canada. The results of the survey indicated that directors felt that the Board was fulfilling its main responsibilities as outlined in the publication, and were satisfied with the present *modus operandi* of the Board. To ensure truly effective governance, however, the Governance Committee decided that the next steps to be undertaken in 1998 should be the formalization and codification of EDC's governance practices, a score card analysis of the extent to which they respond to the Guidelines, then the establishment of an action plan to address any significant gaps. Such a process, it was felt, would be consistent with the above-mentioned Guidelines, and would allow EDC's corporate governance practices to evolve in keeping with today's dynamic global trade environment.

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